CREO

CREO PRODUCTS INC. 1999 ANNUAL REPORT

CREO

IMAGINE
Create
BELIEVE

"Creo" means "to create" in Latin and "I believe" in Spanish.

Imagine. Create. Believe.

It's who we are at Creo and what we encourage our customers to do everyday...and it's changing an industry.

CREO PRODUCTS INC.

A Canadian high-technology company, Creo has integrated strengths in electronics, optics, precision mechanics, and software to become the world's leading supplier of computer-to-plate (CTP) systems to the graphic arts and printing industries. We offer a complete family of digital prepress solutions; including thermal imaging devices, digital proofers, advanced copydot scanning systems, and robust workflow management software based on open file formats. Our products are designed from the ground up for productivity, reliability, value, and exceptional quality. Our services are designed to help real people facing real print-production challenges in an increasingly competitive market.

OUR MISSION

By 2001, the digital prepress solutions provided by CREO and its partners will be the de facto standard in the Graphic Arts industry. CREO will also be recognized as an excellent place to work and a great company with which to do business.

CONTENTS

This document was printed by a Creo customer. Hemlock Printers Ltd. of Burnaby, BC, Canada produced this report using advanced techniques to achieve the ultimate in presswork quality. Detailed production notes can be found on the inside back cover.

Net income for Q4 1999 was the highest in Creo's history.

1983 — CREO founded. Primary activity is contract electro-optical R&D.

1984–88 — Optical Tape Recorder (OTR) development.

1989 — CREO develops large-format imagesetters for the printed circuit board industry.

1990 — CREO develops first large-format PostScript® imagesetter engine.

1992 — CREO supplies large-format PostScript imagesetter engines to Dainippon Screen in Japan.

1993 — CREO redirects focus to automating the prepress phase of the printing industry.

MAY 1994 — CREO delivers the first true production CTP to customers in the U.S.

1994 — CREO wins Graphic Arts Technical Foundation (GATF) Award for Innovative Excellence (Platesetter 3244).

MAY 1995 — DRUPA 95 — the world's largest trade fair for the global print and media industry, held every 5 years. CREO shows 7 machines, including the first thermal systems. The 8-page Trendsetter® is introduced.

CREO installs first CTP system in Europe.

AUTUMN 1995 — CREO delivers first thermal CTP system. First CREO CTP system installed in Asia.

1996 — CREO introduces the VLF Platesetter, VLF Trendsetter, 4-pg Trendsetter, Renaissance copydot scanning system, and PlateMaster workflow software. CREO wins GATF Intertech award for thermal imaging head.

1997 — CREO introduces the Trendsetter Spectrum™ and Proofsetter Spectrum™ digital halftone proofing systems, Trendsetter Autoloader, and Heidelberg Delta™ connectivity. CREO wins GATF Intertech award for the Renaissance. CREO enters joint venture with Heidelberger Druckmaschinen AG.

1998 — CREO introduces the ThermoFlex™ flexographic platesetter, plate-autopunch capability, CEPS-to-Press software, V (very fast) models, and Copydot Toolkit software. CREO wins GATF Intertech Award for PrintLink ink-key preset software.

1999 — CREO introduces powerful PDF-based Prinergy™ workflow management system. The compact Renaissance II copydot scanning system is launched and the first Digital Offset Press (DOP) machine is shipped. CREO goes public on the TSE and NASDAQ.

Revenues rose 38.4% in fiscal 1999.

We believe our installation base is more than three times that of our nearest competitor.

System shipments increased by 61.4% over 1998.

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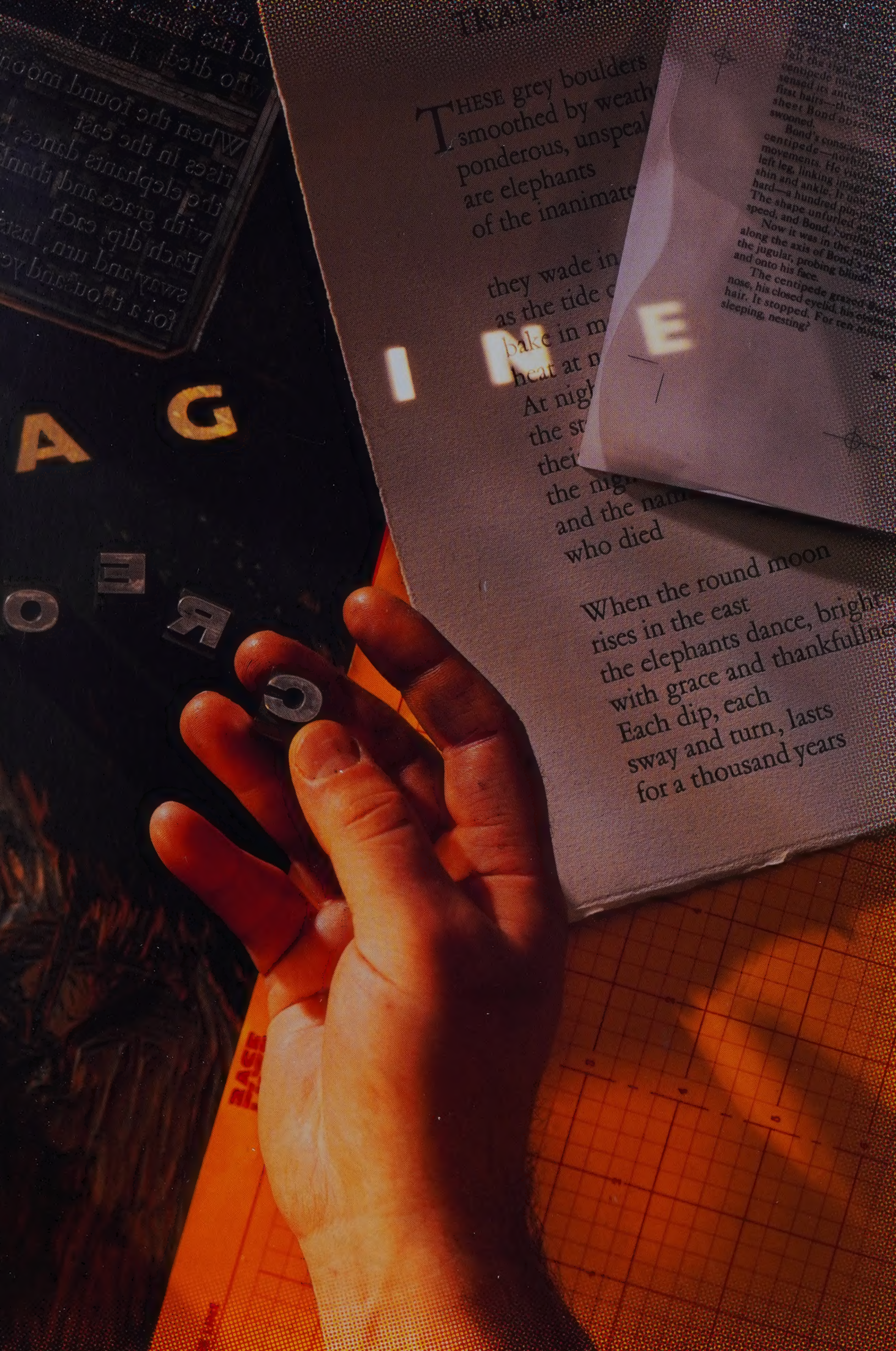
IMAGINE THE
POSSIBILITIES…
Speed-O-Paque



are elephants
who died
When the round moon
rises in the east
Each dip, each
sway and turn, lasts
for a thousand years

Amos Michelson, CEO

The progress we made in 1999 is a direct reflection of the success our customers have achieved with Creo products and services.

LETTER TO CREO SHAREHOLDERS

DEAR CREO SHAREHOLDER The 1999 Creo fiscal year will be remembered as a very exciting and rewarding one for us all. Not only did we strengthen our number-one market position in computer-to-plate (CTP) and surpass our sales targets in multiple areas, but we also penetrated new markets, made major product announcements, and, to top it off, we became a publicly traded company. Our team is stronger and the company is more profitable than ever before. We firmly believe that we are well-positioned for continued growth in the coming year.

FINANCIAL HIGHLIGHTS Our progress in 1999 is a direct reflection of the success our customers have achieved with Creo products and services. Total revenues rose 38.4% to $178.3 million (compared to $128.8 million in 1998). Net income was up 67.4% to $18.6 million (compared to $11.1 million in 1998) or $0.59 per share on a fully diluted basis (compared to $0.41 per share in 1998). In fact, net income for the three months ended September 30, 1999 was the highest of any quarter in the company's history at $6.2 million. Gross margins for the year improved to 47.0% compared to 44.7% in 1998. At the end of fiscal 1999, total assets were $220.2 million, while shareholder equity was $160.0 million.

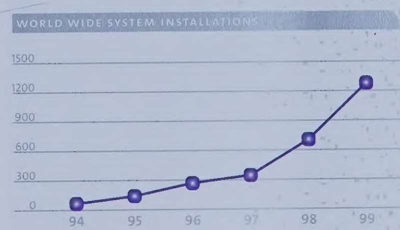
Through our own operations and the Heidelberg/Creo Joint Venture (JV), the number of shipments of CTP systems grew 61.4% in 1999. As of September 30, 1999, the total number of systems installed worldwide was over 1200, which we believe brings our installation base to more than three times that of our nearest competitor. We continued to demonstrate our commitment to

FINANCIAL HIGHLIGHTS *Years Ended September 30*
(IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS)

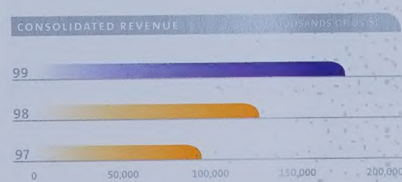
	1999	1998	1997
Total revenue	**$ 178,323**	$ 128,848	$ 95,583
Cost of sales	**94,465**	71,217	53,634
Gross profit	**83,858**	57,631	41,949
Earnings from operations	**29,536**	19,346	8,287
Net earnings	**18,560**	11,090	5,837
Assets	**220,155**	102,118	94,464
R&D expenses, gross	**31,269**	19,123	14,877
Shareholders' equity	**159,956**	62,048	50,475
Earnings per common share (fully diluted, Cdn GAAP)	**$ 0.59**	$ 0.41	$ 0.24

future profitability by expanding our R&D efforts to $31.3 million gross from $19.1 million in 1998.

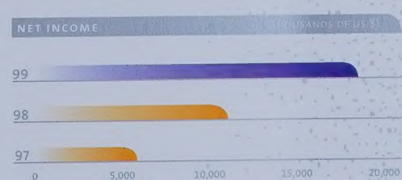
In July 1999, Creo went public on the NASDAQ and Toronto stock exchanges. We believe this move will give the company the ability to consider new acquisitions and pursue strategic goals. It will also provide liquidity to the shareholders and employees who have invested in Creo for many years.

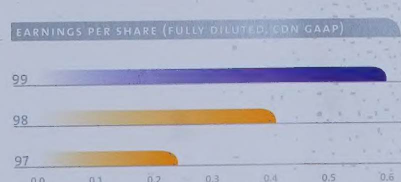


A FOCUS ON SUCCESS Sixteen years ago, Creo was a sparkle in the eye of a small group of visionaries. Today, we are world's largest supplier of CTP systems and the proud partner of hundreds of successful printers and tradeshops. Our focus is on providing customers with the best value for their money, which means we must be first to market with products that improve the quality and economics of their operations. Only by being the most efficient provider of the most valued products can we ensure leading market share and profitability.

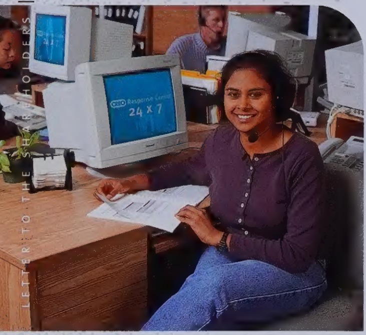


CTP: NO LONGER *IF* BUT *WHICH ONE* Over the past few years, digital printing technologies have been embraced as a way to enhance human skills and achieve new efficiencies in a highly competitive industry. In 1999, it became evident that customers were no longer debating if CTP was in their future but rather when and which one. Printers and tradeshops around the world have now recognized that making the transition to CTP and, to thermal CTP in particular, is a low-risk investment that delivers superior quality, greater consistency, and better efficiency in even the most demanding print environments.





Since the early 1990s, Creo has dedicated resources to eliminating the barriers that could prevent the widespread acceptance of thermal CTP technology. These roadblocks included the limited availability of thermal media, the high cost of proofing hardware, and the lack of efficient and reliable workflow solutions based on open formats. Today, we can confidently say that the last of these barriers has been removed. Media vendors now offer more thermal media than ever before, proofing technology has become more affordable, and PDF has emerged as the open file interchange format of the future. Faced with the choice of which technology to adopt and which vendor to consider, printers are looking for that "something extra" to validate their purchasing decisions. Solutions must be designed to fit the customer's specific print environment and business challenges. Comprehensive customer support, a commitment to



Everyone at Creo is dedicated to helping our customers run profitable businesses.

Partnering for Success

Creo is committed to building close partnerships with customers and their clients in order to better understand industry challenges and to continue to develop innovative solutions. This means delivering the best, most practical technology, as well as excellence in sales, customer support, field service and training.

The first point of contact for Creo's customer base, the Response Center operates 24 hours a day, 7 days a week and brings together teams of experts to handle any customer concern. Over 90% of all software problems and over 65% of all hardware issues are resolved through the Response Center.

Whether it is responding in record time to technical problems, teaming up to ensure successful system integration during installation, or training customers on new purchases, the Creo Customer Support team plays a vital role.

An independent survey in 1999 indicated that overall customer satisfaction with Creo Support Services ranked 7.8 out of 10 points (with 10 meaning "extremely satisfied"). Respondents indicated that no other supplier did a better job providing Customer Support services.

flexible product solutions, and time-tested, field-proven equipment are critical to a well-rounded CTP offering. Creo is leading the way with complete, end-to-end solutions.

TEAM CREO FLOURISHES The Creo team has been growing at an average rate of 36.5% per year for the past three years. Our unique, decentralized corporate culture and flexible team structure have allowed us to accommodate this growth successfully. Overall, our work force grew by 453 people during the year to 1486 people. We feel strongly that our people are our greatest resource and that our future success depends on us all working together effectively. In 1999, we initiated an extensive leadership-training program within Creo, dedicating internal resources to mentoring our people in leadership skills, business strategy, and the principles of economic thinking.

To maintain focus on our corporate mission of making our systems the *de facto* industry standard by 2001, we divided the company into four distinct product groups in fiscal 1999: Output Systems, Workflow Products, Imaging & Media, and Customer Support. Each group operates under a carefully defined set of objectives.

INNOVATIVE SOLUTIONS Creo's success is based on our efforts to find innovative solutions that help our customers run profitable businesses. In 1999, we were issued four patents and filed for an additional 25.

OUTPUT SYSTEMS In 1999, we released a new, compact 4-page CTP system targeted at smaller printers. With this system, which has been very successful to date, we expect to take leadership in the 4-page CTP market in the same way that we have with our 8-page CTP systems in that market. In

1999, we enjoyed continued success with the Trendsetter Spectrum,™ which adds cost-effective digital halftone color proofing functionality to our core Trendsetter® platesetter line. We also continued shipment of the Proofsetter Spectrum™ dedicated, stand-alone proofer. Together, these products deliver a significantly more economical solution to digital halftone proofing than others on the market today.

In 1999, we began an aggressive approach to penetrate other printing markets with our innovative imaging technology. The flexographic printing market, a sub-segment of the packaging market, is the fastest growing segment of the printing industry and one to which we intend to become the leading provider of CTP solutions. In 1999, the ThermoFlex™ flexographic platesetter entered full production and was named Technological Innovation of the Year by the Flexographic Prepress Platemakers Association (FPPA). We have recruited specialists and developed technology that, together with strengthened relationships with flexo media suppliers, will boost us into a leadership position in this market.

IMAGING & MEDIA The patented Creo thermal imaging head is at the core of our award-winning output devices. In 1999, we were able to significantly improve the speed of our thermal imaging head, which was already the fastest on the market. The imaging speed is now 40% faster than last year.

We also began to ship digital offset press (DOP) products to our joint venture with Heidelberger Druckmaschinen AG, the world's leading supplier of press equipment. Heidelberg began full production on the Speedmaster 74 Direct Image (DI) press in the summer of 1999, and Creo supplies up to five thermal exposure systems per press. We expect DOP to be a very fast-growing business for us in the future.

The Imaging & Media teams at Creo and Heidelberg work with over 15 vendors of thermal media worldwide to qualify products, including offset plates, flexo plates, films, imposition proofing materials, and digital halftone proofing materials. We are committed to the media qualification process to ensure that customers achieve the best possible results from the combination of imaging media and output device. All major manufacturers now offer thermal plates and several are already offering thermal processless plates. This wide availability of thermal media encourages competitive pricing and investment in thermal CTP.

WORKFLOW PRODUCTS The launch of the new Prinergy™ workflow management system in August 1999 signaled a major shift in our approach to the market. Together with our existing product lines, this new system—the first jointly developed product with Heidelberg—highlights our focus on complete, end-to-end solutions. We believe that Prinergy, which is based on Adobe® Extreme™ and PDF (portable document format), better prepares us to help customers make a seamless transition to a one-hundred percent digital system. We view Prinergy not only as a workflow product that drives Creo, Heidelberg, and all other output devices on the market, but also as the potential center of every printing facility, controlling all the workflow and offering web and e-commerce capabilities. Ultimately, it will facilitate all

Raffi Amit, Chair of the Board of Directors

communication between the printer, print buyer, and suppliers, providing real-time feedback and status reports.

As the industry moves toward a fully digital workflow, many Creo customers must still work with legacy film and reflective copy. In 1999, Creo introduced the Renaissance II copydot scanning system; a compact, high-performance system that scans halftone film separations or reflective copy and generates digital files. This scanner is based on the same technology as the GATF award-winning Creo Renaissance copydot scanning system. Since its launch in the summer of 1999, the Renaissance II has proven itself to be uniquely positioned to take advantage of the remaining market for film digitization.

Our success to date has been due in part to our strategy of establishing collaborative relationships; both with our customers and with other companies in the industry.

CUSTOMER SUPPORT Of the four Creo product groups, Customer Support is by far the fastest-growing group, expanding to match the pace of new installations. In fiscal 1999, we began converting this team into a full-service unit and revenues from Customer Support activities more than doubled. The Creo support network is widely recognized as among the best in the industry, boasting one-hundred percent customer retention.

STRATEGIC ALLIANCES Our success to date has been due in part to our strategy of establishing collaborative relationships with numerous companies in the printing industry. Nineteen ninety-nine marked the second anniversary of our joint venture with Germany-based print-industry giant Heidelberger Druckmaschinen AG. After an adjustment period for both companies, we believe that our alliance is reaching maturity. Our cooperation unites the flexibility and development capabilities of Creo with the international marketing strengths and distribution network of Heidelberg. Distribution via Heidelberg in Europe and non-NAFTA markets has improved significantly this year. In the last half of fiscal 1999 alone, sales and bookings of joint-venture products outside of North America exceeded those in NAFTA for the first time.

In 1999, we also worked on strengthening other strategic alliances, particularly in the area of imaging media. We extended our relationship with Kodak Polychrome Graphics on a worldwide basis in the area of thermal plates and films. Kodak Polychrome Graphics distributes both Creo and JV CTP products in Europe. We worked closely with Imation Enterprises Corp. in the area of halftone color proofing and, in the coming year, intend to expand our partnerships in this area to include Kodak Polychrome Graphics and DuPont.

With the development and launch of Prinergy, our strategic alliance with Adobe Systems has been in the spotlight in 1999. We began working with Adobe in 1996 and view them as a major partner in the future.

CREO 2000 Fiscal 2000 will be a year of continued growth for Creo with the benefit of having a full family of products, including a new state-of-the-art workflow management system.

We estimate that the graphic arts prepress equipment, services, and consumables businesses support annual revenues of U.S. $8-9 billion. Of this, equipment, software, and services account for $3 billion and our current addressable market of CTP and associated products/services totals approximately $0.8 billion. With this in mind, we will continue to focus all our resources on full digitization of the prepress industry, and will work to push full digitization into the press and post-press area. This includes expanding web and e-commerce capabilities to support our activities. Prinergy lies at the core of this effort, with its Oracle® database and flexible infrastructure providing a solid foundation for full facility digitization. We believe that Prinergy will be extremely successful this coming year and will be established as the most productive workflow system available for the offset printing market. We will look for opportunities to expand its application and establish it as the industry standard in production workflows.

We will continue to focus on expanding our number-one market position in CTP systems by working closely with our partners on improving sales in global markets. Our topmost priority will be to protect our core business in large-format (8-page and larger) CTP systems by reducing costs and ensuring that they continue to provide the best price/performance ratio of any CTP system available. We will also continue to leverage our technologies in the areas of DOP imaging kits and 4-page CTP. Our penetration of the flexographic market will continue as we introduce the most technically advanced systems available. In the coming years, we will only pursue new opportunities where we believe we can become the market leader.

NOTE OF THANKS We are thankful for the commitment, creativity, and dedication of the entire Creo team and their families. Our customers also deserve our thanks and appreciation for their loyalty, enthusiasm, and ongoing collaboration. Finally, we would like to thank our partners and shareholders for their continued support and understanding. We look forward to a productive and successful year ahead.

Amos Michelson
Chief Executive Officer
December 1999

Raffi Amit
Chair of the Board of Directors

Advancing an Industry

Creo is committed to the advancement of digital prepress technology, with over 400 Creo personnel dedicated to applied research & development. We are at the forefront of digital prepress technology R&D, including next-generation products that image digital data directly onto printing presses. Testament to the efforts and dedication of the Creo team is the fact that, in the space of five years, we received four prestigious InterTech Technology Awards from the Graphic Arts Technology Foundation (GATF):

1994 Platesetter 3244
1996 Thermal imaging head
1997 Renaissance copydot scanning system
1998 PrintLink digital ink-key setting software

In 1999, the Creo ThermoFlex flexographic CTP system was named Innovator of the Year by the Flexographic Prepress Platemakers Association.


THE FREEDOM TO CREATE…
CREO

whimsical look.
slim design features the latest in
made quartz movements, with
low-battery warning. Twelve
into the rim of the solid
hours for easy legi-
supple,
black mode
durable,
smooth.

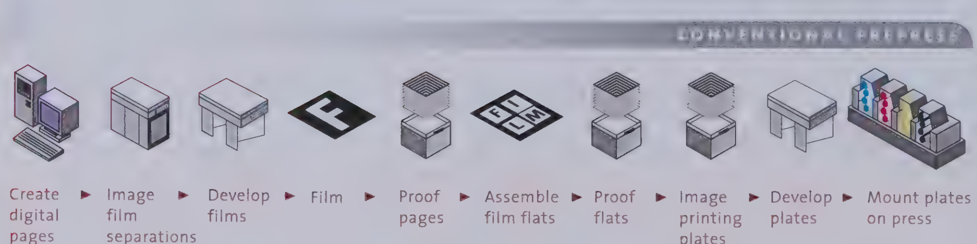
Dan Gelbart, President & Chief Technology Officer

We believe that no competitor offers a product range comparable to ours in breadth, versatility, and performance.

TECHNOLOGY TO TRANSFORM THE WORLD OF PRINT

THE EVOLUTION OF PRINTING If Johannes Gutenberg were alive today, he would marvel at how his invention of the printing press has changed the very nature of human civilization. By creating a more efficient method of producing and circulating information, he literally redefined the way we communicate. At Creo, we also focus on facilitating the production and movement of information. And, like Gutenberg, we do it in the world of printing and the graphic arts.

Printing is currently undergoing a radical transformation, moving from its origins as a manual craft to an automated manufacturing process. Although quality color printing will always demand the skill and talent of creative experts and artisans, today's competitive business environment demands that these skills be complemented with processes that maximize productivity. Creo prepress solutions help businesses become more efficient—and often more profitable—by easing the transition to a digital workspace and by helping teams work better together.

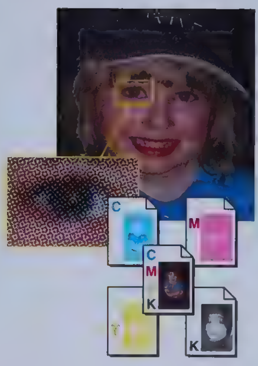


MAKING CTP A PRACTICAL SOLUTION Even 20 years ago, the desire to make CTP a practical reality was widespread. It was only recently, however, that advancements in computing power, desktop publishing, and imaging technology reached a point where reliable digital plate-production became feasible. In 1994, Creo was the first to develop and commercialize a fully integrated high-speed CTP solution. To do this, we spent years researching and working with industry players to identify and build the tools that would make their businesses successful. The decisions made and risks taken along the way are what helped Creo develop the most productive CTP solutions available today. Bold, strategic decisions—such as the original move to focus on CTP as a business—have defined the Creo character over the years and enable us to bring successful products to market quickly. A company-wide commitment to these decisions serves as the driving force behind our product development initiatives.

BUILDING A BUSINESS OUT OF CTP Initially, Creo was a manufacturer of optical tape recorder (OTR) devices and a vendor of laser imaging engines to the printing industry. In 1991, the decision to service the industry directly as a full-system CTP provider marked the start of Creo's unwavering commitment to all-round customer success. Rather than offer a piece of a solution, we decided to build a complete digital prepress system. The goal? Make it easy for customers to adopt new technology by eliminating each potential roadblock; one by one. To do this, we leveraged what we knew best—processless thermal imaging technology. When we turned our sights to the printing industry, we used this optical data storage technology as the platform upon which to build the world's leading CTP systems.

HOT TECHNOLOGY: A FOCUS ON THERMAL IMAGING From 1991 to 1995, most research and development initiatives at Creo focused on building a viable thermal imaging engine for CTP applications. In 1994, we delivered our first commercial CTP system, which used visible light to create the image on the plate. In 1995, we introduced the first thermal CTP system at DRUPA—the world's largest trade fair and exposition for printing technologies. Over 40 CTP systems were on display at DRUPA, but only two were based on thermal technologies. Despite skepticism in the industry at the time, Creo pursued thermal technology, driven by the fact that it is the only process capable of imaging the entire range of materials used by printers and tradeshops: offset plates, processless plates, dry (waterless) plates, proofing media, film, and even flexographic media.

Since 1995, Creo has proven the value and reliability of thermal CTP technology at over 1200 demanding production sites worldwide. Our innovations have established thermal imaging as the industry standard for CTP technology.



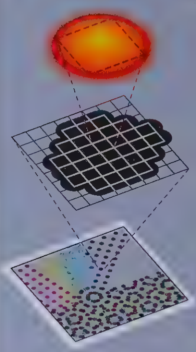
Printing & Prepress: A Brief Introduction

The printing process places dots of different-colored ink on paper so that together, they form a full-color image. Most printed images are formed by mixing dots of four standard colors: Cyan, Magenta, Yellow, and blacK (CMYK). To print a full-color image on a press, the original image must first be separated into layers representing the four basic ink colors. Each layer is then printed separately, one on top of the other, to create the impression of multiple colors.

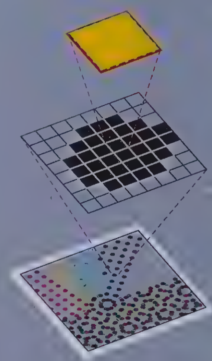
The foundation of this process is the printing plate. These are generally made from aluminum and hold the master image used by the press to transfer ink onto sheets of paper. The quality of the image on the plate directly affects the quality of the printed piece. This means that platemaking is one of the most important elements of print quality. Platemaking is the last step in the prepress process, which includes all activities required to ensure a job is ready for printing.

Creo technology makes prepress the most efficient, consistent, accurate process possible. To printers, this means a healthier profit margin and reduced operating costs. To print buyers, it means getting the best possible job in the shortest possible time.

FROM LASER SPOT TO HALFTONE DOT



FROM LASER SPOT TO HALFTONE DOT WITH SQUARESPOT



Changing the mindset of an industry

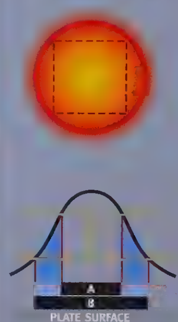
"In 1995 at the DRUPA printing exhibition in Germany, the pundits of the industry commented that there were more computer-to-plate systems installed at the show than in user sites around the world. This was true, but the comment implied that CTP was not a viable idea. That event was also notable for the introduction of Creo thermal CTP, which had a lot to do with changing the mindset of the industry.

As we rapidly approach DRUPA 2000, Y2K will be remembered as YCTP, as printers realize the benefits of workflow efficiency provided by automation of the platemaking process. Not only is the idea viable—it is essential for the success of print as a communication vehicle."

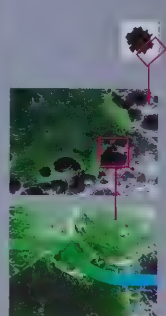
FRANK ROMANO
PROFESSOR

SCHOOL OF PRINTING MANAGEMENT & SCIENCES
ROCHESTER INSTITUTE OF TECHNOLOGY (RIT)

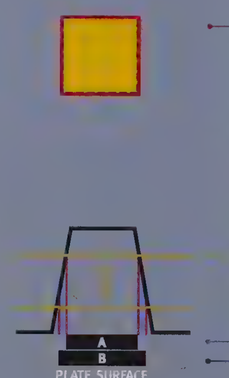
THE IMPACT OF GAUSSIAN THERMAL IMAGING ON HALFTONE DOTS



A–B Range of spot sizes that are imaged on plate



THE IMPACT ON HALFTONE DOTS WITH CREO THERMAL IMAGING



Creo is the driving force behind an industry-wide transition to a fully digital print-production environment.

When given the choice, customers today overwhelmingly prefer thermal to other imaging systems. Since January 1997, 99% of the systems we have installed have been thermal, and all major manufacturers of CTP devices currently offer or plan to offer thermal products. The majority of new plates and proofing media coming to market are designed for thermal systems, with major media suppliers now selling a greater volume of thermal plates than visible-light. The industry has clearly embraced thermal CTP because it provides the foundation for total process control and manufacturing efficiency. But not all thermal CTP systems are created equal.

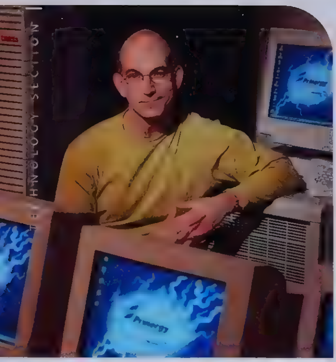
SQUAREspot: UNIQUE, PATENTED IMAGING TECHNOLOGY SETS CREO APART The many benefits of thermal CTP, such as higher-quality presswork, more consistent reprints, less wastage, and digital image integrity ultimately depend on the quality and consistency of the image on the printing plate. Creo developed a unique, patented imaging technology—called SQUAREspot™—which remains unrivaled in the industry for output precision and predictability.

On a digital plate, the dots that make up each image are comprised of clusters of laser-exposed spots, which are arranged according to a grid of squares. Most imaging techniques use a round-shaped laser spot to fill the squares in the grid. Because the laser forms round spots, each one must be larger than a single grid-square to avoid creating gaps between adjacent spots. As a result, neighboring spots overlap, which introduces distortions in the image. In addition, the exposing energy of a round laser spot varies across its width, producing inconsistent and unpredictable dots in the final image. Creo SQUAREspot technology uses a square-shaped laser spot that exhibits virtually no gradation in energy across its width, making the spot extremely predictable and consistent. Its square shape allows exposed spots to be precisely knit together to form any shape of final dot.

SQUAREspot imaging helps printers maintain end-to-end data integrity—from the original file through to the press—despite the variations that occur in a typical production environment. Such process control, which is the main advantage of our systems, is a direct result of the superior edge-resolution possible with SQUAREspot. Edge-resolution is a measurement of the transition zone from imaged to non-imaged area at the edges of a laser spot. With SQUAREspot, this transition is five to ten times more distinct than that of any

BUD LANGE, OWNER
LANGE GRAPHICS
DENVER, CO

"Creo has made us more competitive for three reasons. We save our customers money, our proofing and plating capabilities are superior to those of our competition, and we are able to produce better quality work more easily and more often. We're giving our customers better quality work today, at a faster pace, for the same price. It was definitely the best business investment we have ever made."



Dave Kauffman, Workflow Technology Leader

Creo solutions help businesses become more efficient—and often more profitable—by easing the transition to a digital workspace.

Prinergy—The New Power in Workflow

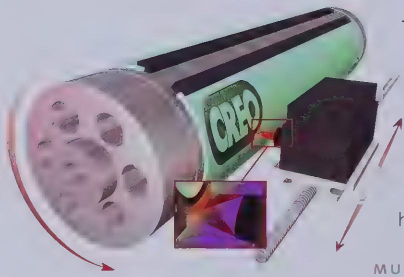
In 1999, Creo and Heidelberg launched the Prinergy workflow management system. An integrated, state-of-the-art workflow management system, Prinergy is based on Adobe Extreme and PDF technology. By organizing and automating the individual tasks in prepress and plate production, Prinergy makes it easier than ever for printers to move to a 100% digital workflow. Prinergy is designed to take full advantage of e-commerce technology, using global standards for databases and formats.

The product architecture for Prinergy is designed to meet four major objectives; the first being to help printers and prepress professionals achieve reliable process control and maximum productivity. The second is to make job progress visible at all stages of prepress, and the third is to strengthen teamwork by making it easy to share information in real-time. Finally, Prinergy is an open, accessible tool based on industry-standard file formats. Throughout the development process, customers tested and provided direct input on system features.

other CTP system on the market. The bottom line? Plates that are accurate and consistent, giving customers the potential to increase their overall throughput, product quality, and profitability.

ONE SYSTEM ARCHITECTURE; MULTIPLE APPLICATIONS

Creo CTP solutions use a combination of external drum architecture and a multi-beam thermal-imaging head:



EXTERNAL DRUM ARCHITECTURE Creo was the first to offer an automatic thermal CTP system that transfers data onto plates wrapped around the outside of a rotating drum. We believe that external drum technology produces a higher-quality image on the plate, because it allows for the use of an auto-focus mechanism that is essential for high-resolution imaging.

MULTI-CHANNEL THERMAL LASER Creo's patented thermal imaging head splits the output of a single high-power laser into 240 separate beams. In contrast, most competing CTP systems use separate lasers to produce each beam, which significantly increases cost and complexity while reducing reliability.

Creo has used these core elements to build an entire family of imaging systems for plates and proofing material of all sizes and types; systems that are modular and scalable to fit any production environment. In addition to streamlining our support and servicing mechanisms, this architectural simplicity has allowed us to expand the application of our technology to the broadest possible range of media, including on and off-press plating. Because all offset presses are external drum devices, external drum architecture is uniquely suited for on-press imaging applications using digital offset press (DOP) technology—the next step in the digitization of the print-production process. In fact, Creo began to ship DOP imaging solutions in 1999.

CRAFTING A COMPLETE SOLUTION...AND SIZING IT TO FIT

With the advent of digital technology came the need to transfer and manipulate huge volumes of digital data. We have always believed that a database-driven workflow solution was the key to making this process manageable. We pioneered this method with PlateMaster; an open, PostScript-based workflow system currently in use in hundreds of demanding

print-production facilities. The concept has evolved further with Prinergy, which uses an Oracle database as its foundation.

At the heart of the decision to focus Creo on CTP was the understanding that customers would want a complete solution before moving away from familiar, conventional methods of platemaking. This meant building a system that could digitize archived or client-supplied film; incorporate a reliable method of previewing (i.e. proofing) jobs before they were imaged onto plates; and control and track all job-related activities.

Today, Creo offers a comprehensive range of CTP solutions that comprise a complete and fully integrated digital prepress system:

- input devices, which digitize film separations;
- workflow software, which manages the flow of data as it is processed and prepared for output;
- proofing systems, which are used to check color and layout by creating a simulation of what the final printed job will look like; and
- output devices, which transfer data onto printing plates.

Creo systems can accommodate a full range of plate sizes, throughput requirements, and automation levels. Our solutions allow printers and tradeshops with any size operation to respond more quickly and cost-effectively to demands from their customers for tighter deadlines, better and more consistent color quality, shorter print runs, and greater customization of print jobs. At the same time they can benefit from reduced print cycle times and more flexible scheduling of presses.

MODULAR, OPEN SYSTEMS MAKE INVESTING EASIER Creo solutions support industry-standard file formats, accommodate a wide variety of input media, and are adaptable to emerging file formats. Our equipment is designed to be compatible with printers' existing prepress equipment, thus avoiding waste and making our customers' investment decisions easier.

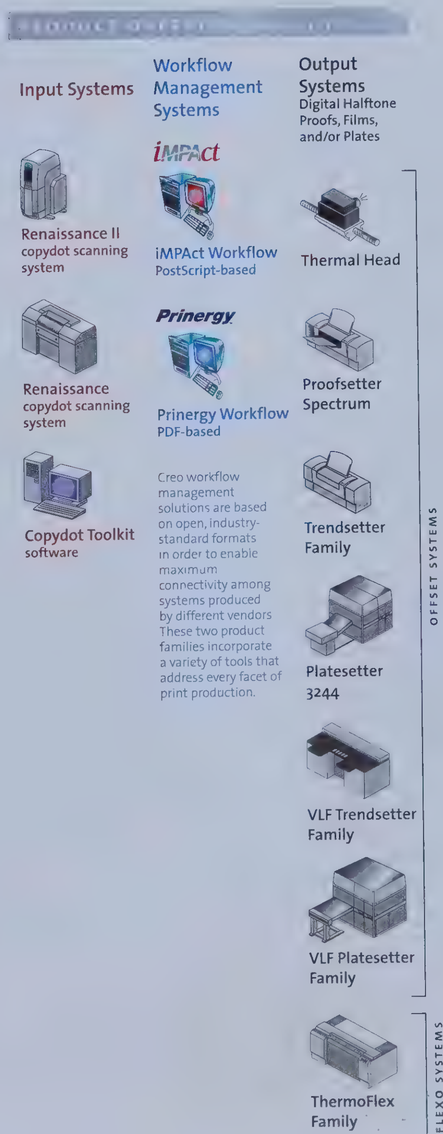
The components of our CTP solutions are modular and can be used separately or assembled in a variety of configurations to meet the needs of customers with varying print volumes and press sizes. Components can be added to increase functionality and/or capacity.

GIVING SUPPORT SERVICES A NEW TWIST Creo offers comprehensive pre-sale evaluation, installation, system integration, training, and post-sale support through what we believe is the most knowledgeable and experienced field service organization in our industry. We believe that our service and support organization, which maintains the reliability and performance of our systems and works proactively to improve the productivity of our customers, gives us a competitive edge.

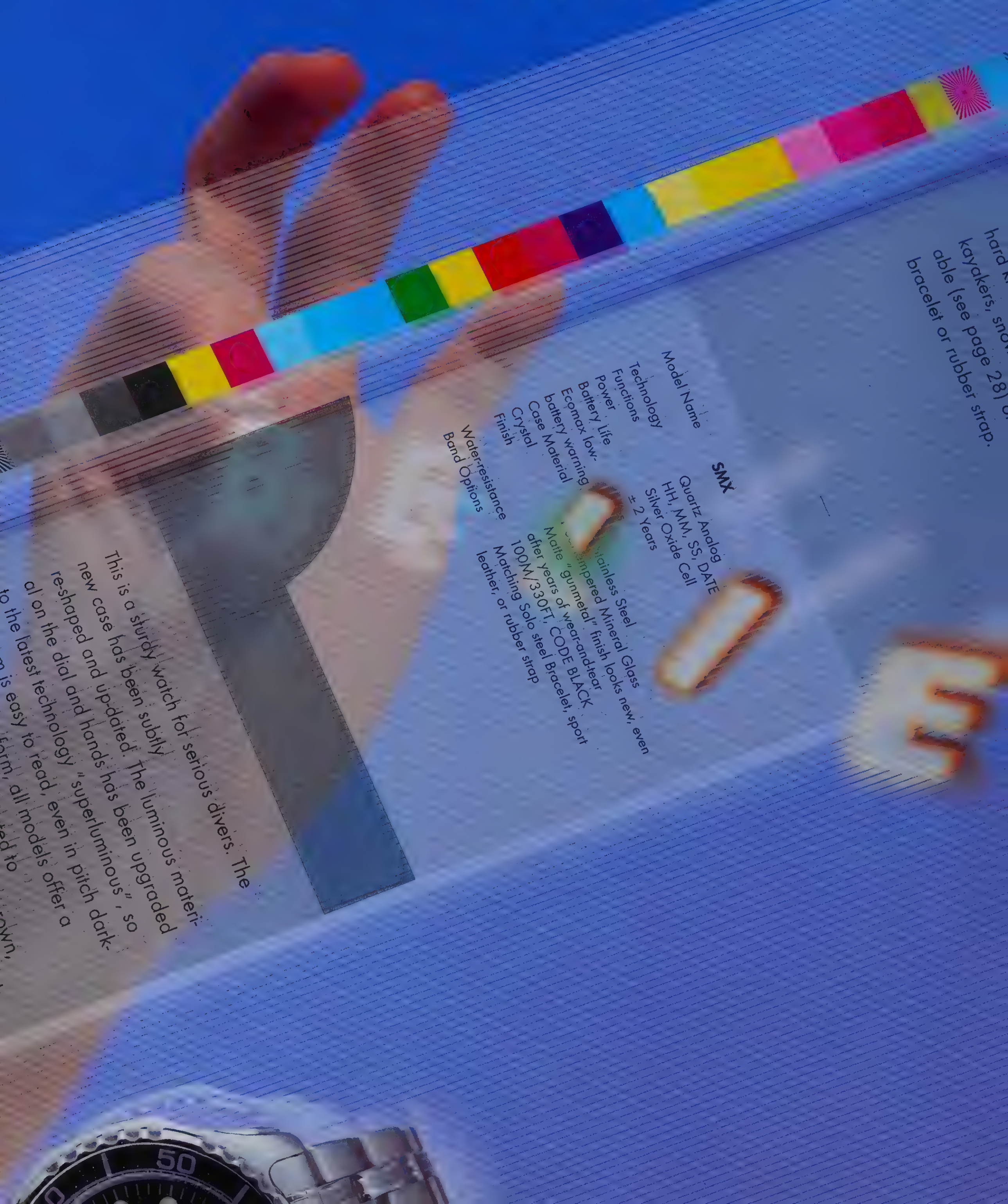
Today, customers count on Creo to help them be more efficient, more consistent, and more profitable in their work. Tomorrow, they can continue to count on us as we redefine industry standards with advanced tools designed for practical applications.

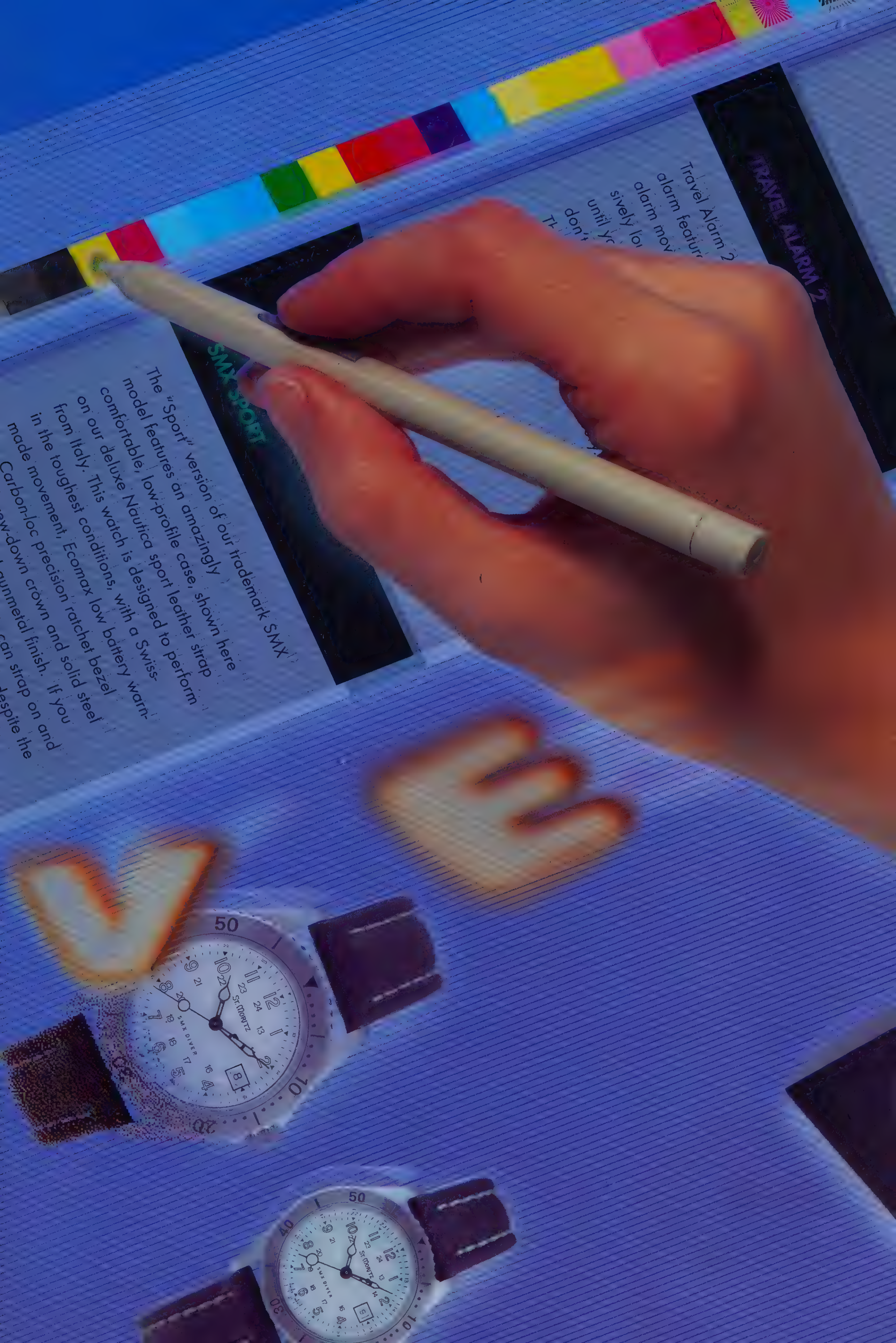
TONY PARKER, CORPORATE DIRECTOR OF DIGITAL TECHNOLOGY
SMYTH COMPANIES (ST. PAUL, MN)
PIEDMONT LABEL DIVISION (BEDFORD, VA)

"CTP is not only a system to get images onto plate, it's literally transforming the way we do business. Our objectives are to use Creo solutions to create consistency and build common processes across the board. That's what will keep us competitive in the global economy."



BELIEVE IN A TRANSFORMATION OF THE WORLD OF PRINT...




TRAVEL ALARM 2
SMX SPORT
The "Sport" version of our trademark SMX
model features an amazingly
comfortable, low-profile case, shown here
on our deluxe Nautica sport leather strap
from Italy. This watch is designed to perform
in the toughest conditions, with a Swiss-
made movement, Ecomax low battery warn-
Carbon-loc precision ratchet bezel
crown and solid steel
finish. If you
strap on and
ST. MORITZ
SMX DIVER

93% of CTP users surveyed said that they would still buy CTP if they had to do it all over again. 79% of survey respondents indicated that they plan to make additional CTP investments in the future.

1999 Survey of CTP User Satisfaction, Graphic Arts Technical Foundation (GATF), authored by Hal Hinderliter.

A STRATEGY FOR SUCCESS

Over the past decade, companies in the graphic arts and printing industry have been challenged to keep pace with a steady increase in customer demand for tighter deadlines, better and more consistent color quality, shorter print runs and greater customization of print jobs. In a market where competition is fierce and margins slim, this means finding smart new ways to give print buyers greater value for the same money. Applying sophisticated technology and automation to enhance the capabilities of traditional prepress and press operations is the key. The Creo strategy focuses on generating practical solutions that help printers and tradeshops around the world stay competitive. It's important to everyone at Creo that we be recognized as a company that cares about customer success. Whatever it takes.

CHALLENGES AND OPPORTUNITIES The printing industry is changing, and the change is not driven by customer demand alone. The trend towards consolidation is uniting production facilities located a continent apart...or just across town. New business models are required to manage the fact that jobs might be processed in one location, proofed at another, and printed at a third. Prepress might happen in-house or different stages contracted out to a tradeshop.

The way that people communicate and advertise is also changing. The increasing availability of alternate media, such as the Internet and "on-demand" digital printing, is giving buyers new ways to deliver information; ways that are cheap, easy, and immediate. To remain competitive, printers and tradeshops must produce more, better, faster. Some are adding e-commerce, web design, and on-demand digital printing to round out their offerings. Equipment investments must pay back quickly and staff must work at optimum productivity levels. In the end, producing high-quality output quickly

and reliably will remain critical. We believe that we provide the broadest range of solutions to make this a reality for businesses of all types and sizes. We're also plugged into the issues that will affect how these companies remain competitive as the industry evolves. Through a combination of partnership, understanding, support, and innovative technology, we will lead them to success in the coming years.

MARKET DEMOGRAPHICS Commercial printing is the largest segment of the printing industry and commercial printers are the largest purchasers of prepress capital equipment. 1997 revenues of commercial printers in the United States alone exceeded $70 billion,[1] and it has been estimated that the worldwide market for prepress imaging equipment will exceed $3 billion.[2] We believe that less than 20% of commercial printers in the world currently use CTP solutions and we are focused on the fact that CTP unit shipments worldwide are expected to grow at a compound annual growth rate of over 25% from 1999 to 2003.[3]

At the end of fiscal 1999, more than 1200 of our CTP systems had been installed in 29 countries worldwide, with many of the largest commercial printers in North America and Europe having installed our systems at multiple sites. About half of current Creo customers are small and mid-size commercial printers. Our goal is to continue to expand penetration of the worldwide small and mid-size printing market.

STRATEGIC DIRECTIONS

Our primary objective is to maintain our position as a leading developer and supplier of innovative digital prepress products and technologies, expanding over time to include on-press and post-press solutions. To cite our mission statement, by 2001 the digital prepress solutions provided by Creo and its partners will be the *de facto* standard in the graphic arts industry. Our business strategy consists of the following four key elements:

FOCUS ON CUSTOMER SUCCESS We strive to work closely with our customers to ensure that Creo solutions generate clear economic benefits for them. Their contributions are important to our design process, helping us to evaluate the productivity, output quality, reliability, and ease-of-use of our systems. In the coming years, we will continue our efforts to make our systems a cost-effective investment for every size and type of print operation. We will also carry through with plans to expand our customer service capabilities and become even more proactive about support and training issues.

EXPAND AND LEVERAGE STRATEGIC BUSINESS ALLIANCES
Creo's success to date has been due in part to a strategy of establishing collaborative relationships with leading commercial printers; manufacturers of printing presses, plates, and consumables; and others in the commercial printing industry. Our strategy is to continue to develop and expand these collaborative relationships to broaden our distribution, product development, and manufacturing capabilities.

Excellence in Operations

At Creo, we maintain superior quality standards by implementing a Quality System based on the requirements of the ISO 9002 standard. This Quality System works in tandem with a strong effort to instill personal quality responsibilities in each Creo employee. Everyone at Creo is responsible for ensuring that our customers are successful and satisfied using Creo products and services.

As part of an ongoing effort to improve operational capabilities, Creo deploys best-of-breed systems for each area of the company. For Order Fulfillment, Manufacturing, Finance, and Human Resources, we use SAP,™ which we have successfully integrated with Clarify™—our Customer Support system—and plan to integrate with Pivotal®—our Sales system.

Creo uses Microsoft® NT,® SQL Server,™ Exchange, and IIS; working closely with Microsoft as a beta site for SQL 7.0. We have a rich, deep Intranet for communicating information to Creo employees worldwide, and we are making a significant investment in the CreoNet web infrastructure to support a range of e-business initiatives.

1 Industry study prepared in July 1998 for NPES (The Association for Suppliers of Printing, Publishing and Converting Technologies) based in Reston, Virginia.
2 Report prepared in November 1997 by State Street Consultants, Inc., an independent consulting firm based in Boston, Massachusetts.
3 June 1999 report prepared by Cloud Information Services, industry researchers based in Nashua, New Hampshire.

Not only does our philosophy of self-management allow us to push the technological envelope, but it also keeps our staff turnover rate one of the lowest in the industry.

TED ETHERIDGE, PRESIDENT & CEO
STEKETEE VAN-HUIS
HOLLAND, MI

"Our payback will be measured by improvements in presswork quality, shortened turnaround time for our customers, reduction of lead time on jobs, and the flexibility of making last-minute changes before the plates are imaged. We're selling predictable results to our customers, and we believe that Creo and Heidelberg deliver the most predictable results from proof to plate to press, day in and day out."

CREO OPERATING PRINCIPLES

WE STRIVE TO BE THE BEST IN THE WORLD IN ALL THAT WE DO

WE CARE ABOUT EACH OTHER, OUR CUSTOMERS, OUR SUPPLIERS, AND OUR SHAREHOLDERS

WE WILL DO OUR ABSOLUTE BEST TO HONOR OUR COMMITMENTS

WE BELIEVE PEOPLE ARE MOST EFFECTIVE WHEN SELF-MANAGED

WE WILL STRIVE TO ACT ALWAYS WITH INTEGRITY AND FAIRNESS

CONTINUE TO EXPAND OUR GLOBAL MARKET PRESENCE
We plan to increase expansion of our market penetration geographically, with a focus on small to mid-size commercial printers, which generally use 4-page and 8-page presses. We will continue to expand our presence in the international market for large-format CTP systems by augmenting our direct sales force and cultivating distribution arrangements with leading vendors of thermal plates.

EXPAND OUR TECHNOLOGY LEADERSHIP We intend to continue to make significant investments in the research and development of innovative, next-generation, market-leading technologies. We will continue to broaden the range of our product offerings as well as enhance the features, reliability, and price/performance ratio of our existing products.

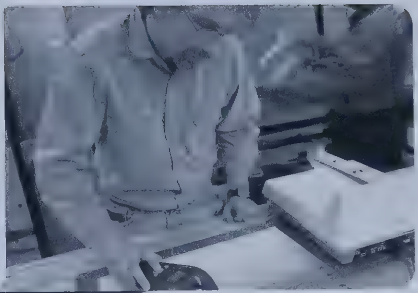
COMPETITIVE ADVANTAGES

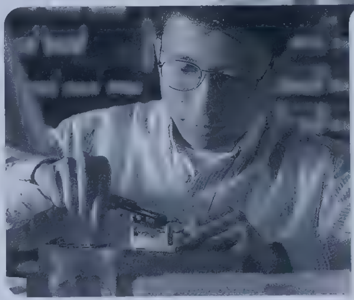
TEAM-FOCUSED MANAGEMENT Creo is built on a foundation of solid technology, strong business sense, calculated risk, good timing, and a healthy measure of fun. We emphasize teamwork, flexibility, decentralized decision-making and the free flow of information. Over the years, we have developed a unique corporate culture that attracts highly qualified and motivated employees. Not only does our philosophy of self-management and the encouragement of creativity allow us to push the technological envelope, but it also keeps our staff turnover rate one of the lowest in the industry. In 1999, only 3.8% of our staff chose to move on.

We believe that our management approach enables each individual to perform at their best, in the method that best suits their own unique style. Our decentralized organization is a key factor in the Company's ability to accommodate rapid growth in multiple geographic locations with relative ease. Creo was founded on a vision that stresses consensus, unit presidency, and economic thinking, while discouraging the politics and unilateral directives that can often result from a structured hierarchy.

We feel it is important that every Creo employee be a shareholder in the company and share in the rewards earned by the team as a whole. This level of employee ownership is quite rare, especially in a high-technology industry. Many people find it interesting to learn that performance evaluation at Creo is based on an annual 360-degree peer review. Conducted every October, this process is managed using sophisticated, confidential database tools and covers every employee, including Senior Management.

As at September 30, 1999, we employed 1486 people full-time. Of these, 447 are engaged in research and product development, 390 in manufacturing, 377 in customer support activities, 149 in marketing and sales and 123 in administration.





IN-HOUSE RESEARCH AND PRODUCT DEVELOPMENT Research and product development activities at Creo are performed in-house by engineers and scientists with expertise in a variety of fields, including software, electronics, mechanics, optics, physics, and printing. Product development is organized around core teams that involve representatives from all areas of the company. Each core team has the authority to manage all aspects of its products and projects, including product architecture, core technology, functionality, and testing.

Current research and product development efforts are focused on improving our current product line; developing next-generation workflow and output devices, including digital offset press products; and applying our core technologies to new printing markets and methods such as packaging printing and flexography.

Our success and ability to compete are dependent in part on our ability to develop and protect proprietary technology. We file United States and, where appropriate, foreign patent applications to protect technology, inventions and improvements important to the development of our business. We also rely on a combination of copyright, trademark and trade secret rights, confidentiality agreements, and licensing arrangements.

CONCENTRATED PRODUCTION We produce and assemble most of our hardware and software products, including all thermal imaging heads, at the three Creo production facilities in British Columbia, Canada. Electro-optical assembly, precision mechanics and electro-mechanical assembly, as well as testing and systems integration are also performed at these facilities. In order to maintain flexibility and reduce costs, Creo sub-contracts the manufacture and assembly of some of the components of our output devices. All of our output devices are designed to use the same imaging heads, resulting in reduced inventory requirements and increased manufacturing and servicing efficiencies. 4- and 8-page Trendsetters are also produced at Heidelberg's manufacturing facility in Kiel, Germany. These systems are destined for delivery to customers in Europe, Asia, Africa, and South America.

CLOSE CUSTOMER RELATIONSHIPS & COMPREHENSIVE CUSTOMER SUPPORT Creo backs up the most dependable, highest-quality products in the industry with what we believe to be the most dependable, highest-quality customer support in the industry. We provide comprehensive services to our customers, including on-site and 24 x 7 on-line service and support. Our site-ownership approach promotes a long-term relationship between the customer and Creo support staff; a relationship built on a complete understanding of each customer's unique challenges.

Beyond profits—digital solutions that benefit the environment

Not only does digital technology save printers and prepress experts money, but it also benefits the environment by reducing waste and chemical by-products. By eliminating film and the chemicals associated with processing it, CTP has made great strides in reducing the non-recyclable and potentially toxic waste produced in the printing process. In fact, the efficiencies that CTP brings to the pressroom generate overall savings of ink, paper, power, and imaging media. Because there is less paper wasted in press make-ready, disposal requirements can also be significantly reduced.

Creo has been driving the development of processless plate-imaging technology, to reduce costs and time in prepress, but also to deliver long-term environmental benefits. We are actively working with all major media vendors worldwide to help them develop and test processless media.

Destination: The World

From Creo headquarters in greater Vancouver, Canada and Heidelberg's manufacturing facility in Kiel, Germany, about 90 imaging systems pass through the shipping bays each month. Destined for countries around the world, each system is specially packaged to ensure its protection. To date, there has never been an instance of system damage en route to a customer site.

Like our products, the Creo team traverses the globe. From field offices in 15 countries, Creo salespeople and service engineers support a diverse group of customers in all locations where our systems operate. By employing people locally, we gain valuable market expertise and a better understanding of the unique production challenges faced by customers in different geographic areas. Our joint efforts with Heidelberg ensure our representation in an even larger market of up to 160 countries. This far-reaching infrastructure also allows us to service global print groups at any of their locations around the world.

We maintain modem connections with most of our systems, which allows engineers to perform remote diagnostics and provide immediate troubleshooting support. In addition to regular service calls, Customer Support Engineers visit each customer site at least twice a year to perform preventative maintenance. We also provide instruction to customers in the use of all of our products, both at their sites and at training centers located at our headquarters in Canada and Europe, and at our software-training center near Chicago.

STRATEGIC ALLIANCES

PARTNERS IN PROGRESS An important part of the Creo growth strategy has been establishing strategic alliances with major industry players. In October 1997, we entered a joint venture with Heidelberg—the largest press manufacturer in the world—to develop, manufacture, market, and distribute our CTP solutions worldwide. With offices in more than 160 countries, Heidelberg has substantial international marketing and distribution channels for commercial printing presses and prepress equipment, and an extensive customer support and service organization. We expect to realize significant benefits from this joint venture. These include:

- access to Heidelberg's worldwide customer base of small and mid-size commercial printers, through its established marketing and distribution network;
- access to Heidelberg's extensive service and customer support organization outside North America;
- shared funding of some of our research and development projects relating to joint-venture CTP products; and
- cost-effective manufacture of some CTP products by Heidelberg in Kiel, Germany.

We are grateful for the support and cooperation that other industry leaders have shown us over the years. Some of the companies we have partnered with to date are represented on this page by logo.

HEIDELBERG CREO

HEIDELBERG

Kodak Polychrome GRAPHICS

DU PONT

Adobe

IMATION

Data General A Division of EMC

ORACLE Enabling the Information Age™

SCENICSOFT

harlequin

MOVING FORWARD

Over the past six years, Creo has led the industry in the transition to digital print-production processes. We believe we are in a unique position to leverage our experience to take the industry to the next stage—connecting the physical world of print with the virtual world of the Internet. It is clear that the Internet and electronic commerce will have a significant impact on the printing industry. Electronic commerce is being used across all industries to improve communications and productivity between vendors and customers. Effective communication makes existing processes more efficient and provides an economical way of producing print in ways that could once only be imagined. At Creo, we have a history of building and supporting systems that work well and deliver real value to our customers. We will continue this in the years to come.

INDEX TO FINANCIAL STATEMENTS

[illegible] IN U.S. DOLLARS

OVERVIEW We are a leading developer, manufacturer and distributor of comprehensive digital solutions that automate the prepress phase of commercial printing. Our solutions enable commercial printers to use their installed base of printing presses more profitably while improving their ability to meet customer demands for tighter deadlines, better and more consistent color quality, shorter print runs, and greater customization of print jobs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

REVENUE Our revenue is derived from sales of our digital prepress products to direct customers and distributors and from fees for service of equipment. Product revenue is derived from the sale of equipment and software, and includes revenue earned from installation, training, and warranty maintenance services. Product revenue from sales made directly to end customers is recognized when title passes to the customer or upon customer acceptance. Customer acceptance is used as the criterion for revenue recognition when the product sold does not have an established sales history to allow management to reasonably estimate returns. Product revenue from sales to distributors is recognized upon shipment to the distributor. The joint venture with Heidelberger Druckmaschinen AG is considered to be a distributor for purposes of revenue recognition.

Service revenue is derived from customer support agreements entered into in connection with product sales and renewals. A substantial majority of our customers contract for service. Service revenue is recorded as deferred revenue when billed to the customer and is recognized ratably over the term of the support agreement, which generally is three to twelve months. Creo provides service support on non-joint-venture products on a worldwide basis, and on joint-venture products only in countries that are signatories to the North American Free Trade Agreement. Creo does not derive any service revenue through the joint venture.

JOINT VENTURE Our joint venture with Heidelberg commenced operations on October 1, 1997. We each have a 50% economic interest in the joint venture, which was established to develop, manufacture, market, and distribute designated CTP and related workflow products and consumables. The joint venture is co-managed and does not own any material assets, maintain any employees, or operate any manufacturing or other operating facilities. We share equally revenue and expenses related to the CTP products, workflow products and consumables designated as part of the joint venture and generally provide goods and services for the joint venture at cost.

Under Canadian GAAP, operations of the joint venture are accounted for using proportionate consolidation, which requires that we include in our consolidated statement of operations one-half of the related revenue and expenses of the joint venture. This treatment differs from the equity method required by U.S. GAAP, under which we would be required to record one-half of the net earnings of the joint venture as a single line item on our consolidated statement of operations.

Unit sales of CTP products have increased since the commencement of the joint venture; however, our product revenue growth rate has decreased compared to prior periods. This decrease is due to the transfer to the joint venture of the right to sell some of our products. As a result, using proportionate consolidation, Creo now records only one-half of the revenues resulting from the sale of joint-venture products.

As the joint venture continues to be successful, Creo expects to realize a number of benefits, including access to Heidelberg's worldwide customer base and marketing and distribution network, access to its service and customer support organization outside North America, product development funding, and improved cost efficiencies for the manufacture of some products. Creo believes that the realization of these benefits over time will result in increased market penetration for its digital prepress products and corresponding improvements in Creo's product revenue growth.

Creo's business and results of operation are dependent upon the success of the joint venture with Heidelberg. Our share of joint-venture revenue accounted for 32.3% of our total revenue for 1999 and 27.6% for 1998. If our joint venture were to terminate or fail to achieve the benefits that we expect to occur, our business, results of operations, and financial condition would be materially adversely affected. See "Information regarding forward-looking statements."

RESEARCH AND DEVELOPMENT Since our inception, we have invested heavily in research and development. This investment has been subsidized in part by funding received from plate and film suppliers, press manufacturers, and our customers in connection with specific product development initiatives undertaken by us at their request. We have also received funding from the Canadian government through investment tax credits. The Canadian government funds up to 20% of our investment in research and development carried out in Canada as investment tax credits. These credits are recorded as a reduction in research and development expense, and are available to reduce income taxes payable. The research and development funding received from third parties has resulted in a significant reduction in our total expenditures for research and development activities. Our joint venture with Heidelberg in particular has been an important source of this funding. For the two years ended September 30, 1999, Heidelberg has provided $11.3 million in research and development funding, representing 22.4% of our gross research and development expenses for the period.

SALES AND MARKETING Sales and marketing expenses are primarily attributable to the salaries, commissions, travel costs, office expenses, and support staff associated with our sales staff. In addition, the costs of trade shows, advertising, and marketing are also included in sales and marketing expenses. Due to the growth of our business primarily in North America and Europe, we intend to continue to invest in the expansion of our sales force. Because of the competitive nature of our business, we do not expect our sales and marketing expenses to decrease as a percentage of our revenue.

FOREIGN EXCHANGE Substantially all of our revenue is received in U.S. dollars. A significant portion of our expenses are incurred in Canadian dollars and Belgian francs. As a result, appreciation in the value of these currencies relative to the U.S. dollar could adversely affect our operating results. Foreign currency translation gains and losses arising from normal business operations are credited to or charged against other income for the period incurred. To date, we have not done any currency hedging to minimize the effect of these gains or losses. As a result, fluctuations in the value of Canadian dollars and Belgian francs relative to U.S. dollars have caused and will continue to cause currency translation gains and losses.

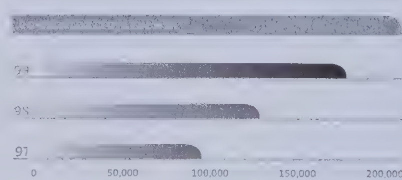
Our consolidated financial statements are prepared in accordance with Canadian GAAP. These principles conform in all material respects with U.S. GAAP, except as disclosed in note 15 to the consolidated financial statements.

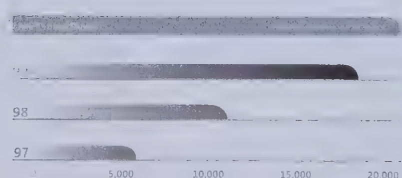
Year ended September 30, 1999 compared to years ended September 30, 1998 and September 30, 1997

The joint venture with Heidelberg commenced operations on October 1, 1997. During the joint venture's first two years of operations our revenue growth rate decreased compared to prior periods, even though unit sales of our computer-to-plate products increased. This decrease was expected because prior to the start-up of the joint venture, all of the revenue from sales by us of the computer-to-plate products now sold by the joint venture was recorded in our income statement, whereas now only one-half of the revenue arising from sales through the joint venture is for our account. The following comparison of results of operations for 1999, 1998, and 1997 should accordingly be read with this development in mind.

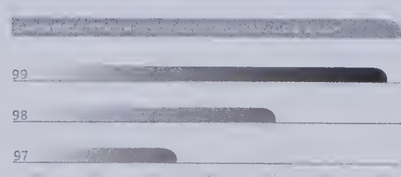
REVENUE Total revenue increased 38.4% to $178.3 million for 1999 from $128.8 million for 1998 and $95.6 million for 1997. Product revenue increased 29.5% to $148.4 million for 1999 from $114.7 million for 1998 and $91.7 million for 1997. This increase was due to higher unit sales of computer-to-plate products by us through direct sales and by the joint venture. Product revenue from the joint venture represented 32.3% of our total revenue for 1999 and 27.6% for 1998. Service revenue increased 110.6% to $29.9 million for 1999 from $14.2 million for 1998 and $3.9 million for 1997. As substantially all of our customers contract for service support, this increase in service revenue was due to the substantial increase in the installed base of our equipment. Revenue from our North American customers accounted for $110.0 million, or 61.7% of total revenue, for 1999; compared to $75.1 million, or 58.3% of total revenue, for 1998; and $65.6 million, or 68.6% of the total revenue, for 1997. Revenue from our European customers accounted for $56.3 million, or 31.5% of total revenue, for 1999; compared to $41.7 million, or 32.3% of total revenue, for 1998; and $15.7 million, or 16.4% of total revenue, for 1997. Revenue from our Japanese customers accounted for $2.6 million, or 1.5% of total revenue, for 1999; compared to $5.3 million, or 4.1% of total revenue, for 1998; and $9.9 million, or 10.4% of total revenue, for 1997. The decrease in Japanese sales is primarily due to depressed economic conditions in the region.

COST OF SALES Cost of sales increased 32.6% to $94.5 million for 1999 from $71.2 for 1998 and $53.6 million for 1997. This increase was primarily due to a 44.4% increase in the number of production and customer service staff as well as increased subassembly and component costs and overhead expenses associated with the increase in both our product sales and our installed customer base. Cost of sales decreased slightly as a percentage of total revenue to 53.0% for 1999 from 55.3% for 1998 and 56.1% for 1997. This decrease was primarily due to lower per-unit labor, subassembly and component costs, increased plant capacity utilization, and increased product reliability offset by increased costs of service related to the hiring of additional service personnel.





RESEARCH AND DEVELOPMENT Gross research and development expenses increased 63.5% to $31.3 million for 1999 from $19.1 million for 1998 and $14.9 million for 1997. This increase was primarily due to a 51.0% increase in the number of



research and development personnel. Gross research and development expenses increased as a percentage of total revenue to 17.5% for 1999 from 14.8% for 1998 and 15.6% for 1997. This increase was due to the large number of new products we have in development, especially in the area of software. Outside funding of our research and product development activities increased 43.2% to $17.5 million for 1999 from $12.2 million for 1998 and $2.1 million for 1997. The $17.5 million in outside funding during 1999 included $5.4 million received from media suppliers and press manufacturers, $7.2 million received from the joint venture, and $4.9 million in investment tax credits. The $12.2 million in outside funding received during 1998 included $4.4 million received from media suppliers and press manufacturers, $4.1 million received from the joint venture, and $3.7 million in investment tax credits. The $2.1 million in third-party funding received during 1997 included $1.4 million received from outside parties and $0.7 million received in investment tax credits. As a result of these factors affecting gross research and development expenses and research and development funding, net research and development expenses increased 99.2% to $13.8 million for 1999 from $6.9 million for 1998 and $12.8 million for 1997. Net research and development expenses increased as a percentage of total revenue to 7.7% for 1999 from 5.4% for 1998. Net research and development expenses in 1997 were 13.4% of total revenue.

SALES AND MARKETING Sales and marketing expenses increased 35.5% to $30.4 million, or 17.0% of total revenue for 1999 from $22.4 million, or 17.4% of total revenue for 1998 and $14.6 million, or 15.3% of total revenue for 1997. This increase was primarily due to a 35.5% increase in the number of sales and marketing staff in North America and Europe to support the expansion of our operations, including the joint venture.

GENERAL AND ADMINISTRATION General and administration expenses increased 13.5% to $10.1 million, or 5.7% of total revenue for 1999 from $8.9 million, or 6.9% of total revenue for 1998 and $6.3 million, or 6.6% of total revenue for 1997. This increase was primarily due to the growth of our business.

INCOME TAXES Income tax expense increased to $12.3 million for 1999 from $6.7 million for 1998 and $2.5 million for 1997. This increase was primarily due to the increase in our profitability. Our effective tax rate of 39.9% for 1999 was below the statutory rate of 45.6% due to Canadian manufacturing and processing tax credits and the fact that a portion of our profits were earned in foreign jurisdictions with tax rates lower than those of Canada. See note 10 to our consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES Since we commercialized our first computer-to-plate product in October 1994, we have financed our operations through a combination of private sales of equity securities, cash generated by operations, and proceeds from our Initial Public Offering. As at September 30, 1999, we had $123.5 million in working capital and $103.1 million in cash and short-term deposits. Our operations used cash of $0.7 million for 1997, and generated cash of $11.6 million for 1998 and $25.5 million for 1999. Our inventory and accounts payable have remained relatively flat for 1997 and 1998 because the increase in production of computer-to-plate systems during this period was done by Heidelberg through the joint venture. Inventory increased 28.2% during 1999 due to the increase in the volume of computer-to-plate products that we produced. Accounts payable increased during 1999 due primarily to the increase in our business activity. Our accounts receivable have increased from 1997 to 1999 due to the increase in our sales volumes. Our days receivables outstanding have decreased slightly during the period due to an increase in our collection efforts. As at September 30, 1999, we had deferred revenues and deposits of $19.0 million, and total borrowings of $6.7 million, which are secured by a first mortgage on our Canadian office and production facilities. Subsequent to September 30, 1999, we repaid this mortgage in full.

We also have $15.0 million available through a credit facility with a Canadian chartered bank. The credit facility is repayable on demand and bears interest at LIBOR plus 1%. As at September 30, 1999, there were no borrowings outstanding under the credit facility. Our net capital expenditures for 1999 were $12.5 million, compared to $22.4 million in 1998 and $4.2 million in 1997. Our capital expenditures have related primarily to the purchase of equipment and land for engineering, production, and service support facilities.

In 1994, we formed Creo Ltd. under the laws of Israel to carry on research and development work relating to our imaging technologies. In 1997, Creo Ltd. began to focus on developing applications of our technologies to the printed circuit board industry. In 1998, our Board of Directors decided that we should focus our energies and resources on our core graphic arts business. As a result, additional shares of Creo Ltd. were sold to outside investors, leaving us with a small minority interest. We also have an option to acquire up to 58% of the outstanding shares until June 30, 2007 for a maximum total consideration of $8 million. We have not currently decided whether to exercise this option. We are not represented on Creo Ltd.'s Board of Directors, and have no role in its management.

We believe that existing cash balances, cash generated by our operations, and funds available under our credit facility will be sufficient to meet our anticipated working capital and capital expenditure requirements for the next two years.

2000 READINESS DISCLOSURE: STATE OF READINESS We initiated a Year 2000 compliance program for our products in the summer of 1998. The program focused on two areas:

- *components of Creo products that are provided by sub-contractors; and*
- *e components of Creo products that we produce ourselves.*

We have completed our tests on the product components that could be affected by Year 2000 issues and, based on our tests, we believe that all of these components are Year 2000-compliant. Although we have received written warranties or other representations from substantially all of our sub-contractors that their products are Year 2000-compliant, we have no other Year 2000-related contractual commitments. Moreover, if we were to make a warranty claim against one of our sub-contractors because of a malfunction related to the Year 2000, there can be no assurance that the sub-contractor would actually pay our warranty claim. We use a number of computer software programs and operating systems across our entire organization, including applications used in financial business systems and various administrative functions. At this time, we have completed the process of identifying and remediating information technology systems that were not Year 2000-compliant. As a result, we believe that none of our information technology systems currently contain source code that is unable to appropriately interpret Year 2000 data. Despite our Year 2000 compliance program, there is a possibility that one or more of our products is/are not Year 2000-compliant. In the event of a failure of one of our products at a customer site, our normal protocols for customer support would be followed. Heidelberg believes that the products it produces for our joint venture are Year 2000-compliant apart from a few exceptions that are currently being addressed.

STS OF ADDRESSING YEAR 2000 ISSUES Given the extent of our systems' compliance, we do not expect Year 2000 compliance costs to have any material adverse impact on our business. The total costs for the Year 2000 compliance assessment and remediation undertaken by us have not been significant and are included in general and administrative expenses.

EAR 2000 ISSUES In light of our assessment and remediation efforts to date, we believe that any residual Year 2000 risk is limited to non-critical business applications and support hardware. We have no assurance that the outside manufacturers who supply components to us will be Year 2000-

compliant with their internal systems. A reduction in the supply of product from these suppliers could have a material adverse effect on our business.

CONTINGENCY PLANS The most likely worst-case scenario that we may encounter as a result of a Year 2000 issue is a product failure at one or more of our customer sites coupled with a parts shortage resulting from one or more of our suppliers failing to be Year 2000-compliant. To address the possibility of a product failure at one or more of our customer sites as a result of a Year 2000 issue, we will have additional customer service and support personnel on hand in our Response Center during the beginning of the Year 2000 to handle any unusual increase in customer requirements. To address the possibility of a parts shortage resulting from one or more of our suppliers failing to be Year 2000-compliant, we have identified other suppliers that could rapidly provide an alternative source of component parts.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS In addition to the U.S. GAAP differences referred to in note 15 to our consolidated financial statements, the Financial Accounting Standards (FAS) Board in the United States has issued FAS 133, "Accounting for Derivative Instruments and for Hedging Activities." FAS 133 provides comprehensive and consistent standards for the recognition and measurement of derivatives and hedging activities. Generally, FAS 133 requires all derivatives to be recorded on the balance sheet at fair value and establishes new accounting requirements for different types of hedging activities. The implementation of FAS 133 was delayed by FAS 137, which indicates implementation shall be effective for fiscal years beginning after June 15, 2000. To date, we have not engaged in any hedging activities other than the interest rate swap described below. Our management continues to assess the implications of FAS 133, but does not believe its adoption will materially affect our historical results of operations or shareholders' equity when reconciled to U.S. GAAP as set out in our consolidated financial statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK We have used an interest rate swap to manage our risk with regards to interest rate changes. As a result, floating rate debt has been converted to fixed rate debt. The swap results in our paying an interest rate of 8.05% and receiving an interest rate of LIBOR + 1.5% for the duration of the long-term debt. The fair value of the interest rate swap as at September 30, 1999 is $57,000 in favor of the counterparty. Subsequent to year end, we repaid our floating rate debt and terminated the interest rate swap.

We have not engaged in any currency hedging to minimize the effect of exchange gains or losses. We are exposed to foreign currency fluctuations on our monetary asset and liability balances denominated in Canadian dollars and Belgian francs.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS Certain statements made by us in this Annual Report, including without limitation certain statements contained in the section of this Annual Report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" which are not historical facts, are so-called "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. These include statements about management's expectations, beliefs, intentions or strategies for the future, which are indicated by words such as "anticipates," "intends," "believes," "estimates," "forecasts," "expects" or similar words. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the United States Private Securities Litigation Reform Act of 1995.

Forward-looking statements are not guarantees of future performance. All forward-looking statements reflect management's current views with respect to future events and are subject to certain risks, uncertainties, and assumptions. Some, but not all, of the important factors that could cause actual results, performance or achievements to be materially different from those expressed or implied by these forward-looking statements are outlined below. Other risks and uncertainties are identified and discussed elsewhere in this Annual Report and from time to time in our filings with Canadian and United States regulatory authorities.

Our computer-to-plate solutions have thus far been adopted principally by mid-sized to large commercial printers. While we have begun to demonstrate some success in persuading smaller printers to adopt our solutions, we will have to continue this effort to ensure revenue growth.

As a result of our joint venture with Heidelberg we have not developed for ourselves the manufacturing, marketing, distribution, and customer service and support capabilities that Heidelberg contributes. If the joint venture were to terminate or otherwise become unsuccessful we would be forced to develop these additional capabilities. This would increase our operating costs and, if we were unable to develop these capabilities quickly enough, our revenues would decline.

As demand for digital prepress solutions increases, direct competition among providers of these solutions is likely to intensify, and this in turn is likely to result in price reductions, reduced gross margins, longer sales cycles, and reduced market share, all of which would seriously harm our business and results of operations. We face intense direct competition from other manufacturers of computer-to-plate products, many of whom are substantially larger than we are and have significantly greater financial, sales and marketing, technical, manufacturing and other resources, and more established distribution channels. In addition, successful new product introductions or enhancements by our competitors could reduce the sales or market acceptance of our products and services, perpetuate intense price competition or make our products obsolete. For example, recent innovations in xerographic technology could result in xerography becoming an economic alternative to offset printing for very short print runs.

Our past revenue growth rates and other operating results may not be accurate indicators of our future performance. Our operating results could be affected in particular by changes in the capital budgets of our customers, which may cause seasonal or other fluctuations in the volume and timing of orders for our products; the length of our product sales cycle, especially for our higher-priced and more complex products; and fluctuations in the performance of the Heidelberg joint venture, which could make it difficult for us to predict and control our expenses associated with joint-venture operations.

Because there is a limited number of potential suppliers of certain key components of our products, including our thermal imaging heads, it may be difficult for us to find qualified suppliers or to replenish our inventories of these components on a timely basis, and this could cause our operating results to suffer.

Our products and some of the key components supplied to us by other companies incorporate complex imaging technology, software, and hardware. Despite rigorous testing, undetected errors, defects, or bugs may cause failures at any time. We may not be able to sell our products if they have reliability, quality, or

compatibility problems. Moreover, errors, defects or bugs can result in additional development costs, diversion of technical and other resources from our development efforts, warranty claims by our customers or others against us, or the loss of credibility with our current and prospective customers.
We carry product liability insurance that we consider adequate, but a successful claim against us for an amount exceeding our policy limits would force us to use our own resources to pay the claim, which would result in a reduction in our working capital available for other uses, as well as an increase in our expenses and a negative effect on our results of operations.

Plate suppliers and press manufacturers assist us in developing our technology, facilitating broad market acceptance of our products, and enhancing our sales, marketing and distribution capabilities. For example, through our joint venture, Heidelberg provides us with significant sales, marketing and distribution capabilities for our products, as well as research and development resources, and our strategic alliances with suppliers of printing plates have allowed us to enhance the compatibility of our technology with their products. If we are unable to maintain our existing strategic alliances and to establish new ones, we would lose these additional capabilities, our products might be less attractive to our potential customers, and our operating results could be negatively affected.

The digital prepress market is characterized by rapid technological change, evolving industry standards, frequent new product introductions and enhancements, and changing customer demands. Accordingly, our future success will depend on our ability to invest significantly in research and development; to develop, introduce, and support new products and enhancements on a timely basis; and to gain market acceptance of our products. We may not be successful in introducing and selling profitably new products or services that our customers want, and if we are not, our revenues and other operating results will be negatively affected.

A number of companies, including Creo, are currently working with press manufacturers to develop products that use next-generation digital offset printing technology as a digital prepress solution. Although the number of digital offset printing products currently available is limited, it is likely that new digital offset printing products will be introduced. Although we expect that various digital prepress technologies, including computer-to-plate technology, will co-exist for the foreseeable future, digital offset printing products could in time replace or provide lower-cost alternatives to our existing computer-to-plate solutions, causing them to become obsolete. In addition, recent innovations in xerography, the printing process used in most office copiers, could make it a more economic alternative to offset printing for short print runs.

If outside funding of our research and development activities is reduced or eliminated for any reason, we would be required to use our own working capital to fund these activities, or to reduce them. If we were unable to fund our research and development at levels sufficient to develop our products and technology, it may be difficult for us to remain competitive. If we are required to divert our own funds from other uses to fund our research and development activities, the reduction in funding would cause those other aspects of our business to suffer.

Our ability to maintain our competitive position depends to a significant extent on the efforts and abilities of our senior management, particularly Amos Michelson, our Chief Executive Officer; and Dan Gelbart, our President and Chief Technology Officer. Their managerial, technical, and other services would be difficult to replace, and if we lose the services of one or more of our executive officers, or if one or more of them decide to join a competitor or otherwise compete directly or indirectly with us, our business would be seriously harmed. In addition, our ability to develop, market, and sell our products and services and to maintain our competitive position depends on our ability to attract, retain, and motivate highly skilled technical, sales and marketing and other personnel. If we fail to recruit or retain these personnel, our

ability to develop new products, obtain new customers, and provide an acceptable level of customer service could suffer.

Despite our efforts, our intellectual property rights, particularly our existing or future patents, may be invalidated, circumvented, challenged, infringed, or required to be licensed to others. Furthermore, others may develop technologies that are similar or superior to our technology, duplicate or reverse-engineer our technology, or design around the patents that we own or license. We cannot be sure that the steps we take to protect our technology will prevent misappropriation or infringement. If we fail to protect our technology so that others may copy or use it, we would be less able to differentiate our products and our revenues will decline. Moreover, litigation regarding intellectual property rights is common in the technology industry. If an infringement claim is filed against us, we may be prevented from using certain technologies and we could incur substantial costs in defending ourselves and our customers against the claim. Litigation could also adversely affect sales of the challenged product or technology and divert the efforts of our management and technical personnel. In the event of an infringement claim, we may be required to obtain one or more licenses from third parties, which may not be obtainable at a reasonable cost or at all. If we fail to obtain a license where one is required, we could incur substantial liabilities and be forced to suspend the marketing of the challenged products.

If we are unable to manage our growth effectively, we may not be able to maintain or improve our current level of profitability. We have experienced rapid growth and plan to continue to expand our operations. This expansion is expensive and places a significant strain on our personnel and other resources. To manage expanded operations effectively we will need to further improve our operational, financial, and management systems and successfully hire, train, motivate, and manage our employees. Our profitability could be adversely affected if we are unable to manage our growth effectively.

Our continuing efforts to increase our presence in markets outside North America require considerable management time and attention, and financial resources, and may not be successful to the degree that we expect. Additionally, international operations are influenced by numerous inherent potential risks, including among other things unexpected changes in regulatory requirements, tax rates, or tariffs that may make our products and services more expensive and therefore less attractive to potential customers; longer accounts receivable payment cycles and possible difficulties in collecting payments; political and economic instability; and fluctuations in currency exchange rates and the imposition of currency exchange controls. Because substantially all of our revenue is received in U.S. dollars, appreciation of the U.S. dollar against the currencies used by our potential customers would make our products more expensive and therefore less attractive.

Although substantially all of our revenue is received in U.S. dollars, a significant portion of our expenses are incurred in Canadian dollars and Belgian francs. Appreciation in the value of these currencies relative to the U.S. dollar will adversely affect our operating results. To date, we have not established any currency hedging to minimize the effect of these foreign currency translation gains or losses. As a result, fluctuations in the value of Canadian dollars and Belgian francs relative to U.S. dollars have caused and will likely continue to cause currency translation gains and losses.

We depend on proper functioning of computer systems of outside parties such as suppliers and customers. We also depend on our computer software programs and operating systems in operating our business. Any computer systems or components that have date-sensitive software may recognize a date using "00" as the year 1900 instead of the year 2000. While, based on our tests, we believe that all of our

product components are Year 2000-compliant, it is possible that we may not have identified all of the potential Year 2000 risks or that either our internal systems or those of our suppliers will function adequately. In addition, we have no assurance that the outside manufacturers who supply components to us will be Year 2000-compliant with their internal systems. If they are not, the result could be a system failure or miscalculation causing disruptions of our operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in our similar normal business activities. Although we have received written warranties or other representations from substantially all of our sub-contractors that their products are Year 2000-compliant, we have no other Year 2000-related contractual commitments. Moreover, if we were to make a warranty claim against one of our sub-contractors because of a malfunction related to the Year 2000, there can be no assurance that the sub-contractor would actually pay our warranty claim. In addition, our customers or potential customers may be affected by Year 2000 problems that may cause a delay in payments for products shipped.

We use a number of computer software programs and operating systems across our entire organization, including applications used in financial business systems and various administrative functions. At this time, we have completed the process of identifying and remediating information technology systems that were not Year 2000-compliant. As a result, we believe that none of our information technology systems currently contain source code that is unable to appropriately interpret Year 2000 data. Despite our Year 2000 compliance program, there is a possibility that one or more of our products is not Year 2000-compliant. If one of our products at a customer site should fail, our normal protocols for customer support would be followed.

If our systems experience "Year 2000" problems, we may be subject to warranty claims or claims for service interruptions and other damages related to the malfunctioning of our systems. Our product liability insurance may not be adequate to cover this possibility. If our products are adversely affected by Year 2000 problems in our customers' hardware or software with which our products interact, our customers or their end users may mistakenly believe that these problems were caused by our products. These customers and end users could react by demanding extensive technical support from us or by filing suit against us, either of which could increase our costs and divert our management resources.

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The management of Creo Products Inc. is responsible for the preparation of the accompanying consolidated financial statements and the preparation and presentation of all information in the Annual Report. The consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in Canada and are considered by management to present fairly the financial position and operating results of the Company. Material differences to United States accounting principles are set out in Note 15.

The Company maintains various systems of internal control to provide reasonable assurance that transactions are appropriately authorized and recorded, that assets are safeguarded, and that financial records are properly maintained to provide accurate and reliable financial statements.

The Company's audit committee is composed entirely of non-management directors and is appointed by the Board of Directors annually. The committee meets periodically with the Company's management and independent auditors to review financial reporting matters and internal controls and to review the consolidated financial statements and the auditors' report. The audit committee reported its findings to the Board of Directors, who have approved the consolidated financial statements. The Company's independent auditors, KPMG LLP, have examined the consolidated financial statements and their report follows.

Amos Michelson

Amos Michelson, Chief Executive Officer

Thomas Kordyback, Chief Financial Officer

November 9, 1999

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders of Creo Products Inc.

We have audited the consolidated balance sheets of Creo Products Inc. as at September 30, 1999 and 1998 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles in Canada.

The consolidated financial statements for the year ended September 30, 1997, prior to restatement for the change in amortization policy and recording of incentive shares as described in note 1l, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated November 20, 1997. We have examined the adjustments that were applied to restate the 1997 consolidated financial statements and in our opinion, such adjustments are appropriate and have been properly applied.

Significant differences between Canadian and United States accounting principles are explained and quantified in note 15 to the consolidated financial statements.

KPMG LLP

KPMG LLP, Chartered Accountants

November 9, 1999

CONSOLIDATED BALANCE SHEETS

	(IN THOUSANDS OF U.S. DOLLARS)	
September 30	**1999**	1998
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 103,075**	$ 16,224
Accounts receivable (note 3)	**38,736**	24,385
Inventories (note 4)	**32,247**	25,151
Prepaid expenses	**3,312**	2,212
Total current assets	**177,370**	67,972
Capital assets (note 5)	**40,718**	34,146
Future income taxes (note 10)	**2,067**	–
	$ 220,155	$ 102,118
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	**$ 30,144**	$ 17,878
Income taxes payable	**3,486**	825
Future income taxes (note 10)	**862**	34
Deferred revenue and deposits	**19,047**	13,677
Current portion of long-term debt (note 7)	**296**	943
Total current liabilities	**53,835**	33,357
Long-term debt (note 7)	**6,364**	6,660
Future income taxes (note 10)	–	53
Total liabilities	**60,199**	40,070
Shareholders' equity:		
Share capital (note 8)	**138,202**	58,854
Retained earnings	**21,754**	3,194
Total shareholders' equity	**159,956**	62,048
	$ 220,155	$ 102,118

Commitments and contingencies (note 13)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Raffi Amit, Director

David A. Bennett, Director

CREO PRODUCTS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS)

Years Ended September 30	**1999**	1998	1997 *(note 1l)*
Revenue:			
Product revenue	**$ 148,433**	$ 114,652	$ 91,669
Service revenue	**29,890**	14,196	3,914
Total revenue	**178,323**	128,848	95,583
Cost of sales	**94,465**	71,217	53,634
Gross profit	**83,858**	57,631	41,949
Operating expenses:			
Research and development, net (note 9)	**13,805**	6,931	12,772
Sales and marketing	**30,373**	22,417	14,619
General and administration	**10,144**	8,937	6,271
Total operating expenses	**54,322**	38,285	33,662
Earnings from operations	**29,536**	19,346	8,287
Other income (expense)	**1,358**	(1,580)	48
Earnings before income taxes	**30,894**	17,766	8,335
Income tax expense (note 10)	**12,334**	6,676	2,498
Net earnings	**$ 18,560**	$ 11,090	$ 5,837
Earnings per common share:			
Basic, Canadian GAAP (note 11)	**$ 0.65**	$ 0.44	$ 0.26
Fully diluted, Canadian GAAP (note 11)	**$ 0.59**	$ 0.41	$ 0.24
Diluted, U.S. GAAP (note 15)	**$ 0.62**	$ 0.38	$ 0.25
Retained earnings (deficit), beginning of year	**$ 3,194**	$ (7,896)	$ (13,733)
Net earnings	**18,560**	11,090	5,837
Retained earnings (deficit), end of year	**$ 21,754**	$ 3,194	$ (7,896)

See accompanying notes to consolidated financial statements.

CREO PRODUCTS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended September 30	1999	1998	1997 (note 1l)
		(IN THOUSANDS OF U.S. DOLLARS)	
Cash provided by (used in) operations:			
Net earnings	**$ 18,560**	$ 11,090	$ 5,837
Items not affecting cash:			
Amortization	**5,983**	4,996	3,673
Future income taxes	**823**	779	(380)
Incentive shares issued	**–**	78	102
Other	**36**	1	46
	25,402	16,944	9,278
Changes in non-cash working capital:			
Accounts receivable	**(12,006)**	(4,090)	(8,760)
Inventories	**(7,096)**	(838)	(5,805)
Prepaid expenses	**(1,100)**	(448)	(634)
Accounts payable and accrued liabilities	**12,266**	1,217	6,179
Income taxes payable	**2,661**	(221)	1,912
Deferred revenue and deposits	**5,370**	(969)	(2,864)
	95	(5,349)	(9,972)
	25,497	11,595	(694)
Cash provided by (used in) investing:			
Purchase of capital assets	**(12,971)**	(23,537)	(4,220)
Proceeds from sale of capital assets	**457**	1,142	57
	(12,514)	(22,395)	(4,163)
Cash provided by (used in) financing:			
Proceeds from share issues	**77,156**	405	24,254
Share-purchase loans	**(2,345)**	–	–
Increase in long-term debt	**–**	–	7,400
Repayment of long-term debt	**(943)**	(4,033)	(7,082)
	73,868	(3,628)	24,572
Increase (decrease) in cash and cash equivalents	**86,851**	(14,428)	19,715
Cash and cash equivalents, beginning of year	**16,224**	30,652	10,937
Cash and cash equivalents, end of year	**$ 103,075**	$ 16,224	$ 30,652

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of U.S. dollars, except per share amounts)

Creo Products Inc. (the Company) was incorporated under the laws of Canada and its principal business activities include the development, manufacture, and distribution of digital prepress equipment for the printing industry. The Company's principal customers are in the United States, Europe, and Japan.

1 Significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which, in the case of the Company, materially conform with those established in the United States except as explained in note 15.

a Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Creo Products N.V., Creo Inc., Creo SRL, Creo Products ULC, and Creo Ltd. (to March 12, 1998, the date of disposal). Creo Ltd. was disposed of at its carrying value to an unrelated party. All material intercompany balances and transactions have been eliminated.

Interests in joint ventures are recognized in the Company's consolidated financial statements using the proportionate consolidation method.

b Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the amounts reported in these financial statements and notes thereto. A significant area of estimate relates to the provision for potential retrofits on installed equipment. Actual results could differ from those estimated.

c Cash and cash equivalents

Cash equivalents include short-term deposits, which are all liquid securities with a term to maturity of three months or less when acquired.

d Inventories

Inventories are valued at the lower of cost and net realizable value. Costs of materials are determined on a weighted average basis. Work-in-progress and finished goods inventories include materials, direct labor, and production overhead. Inventories are recorded net of any obsolescence provisions.

e Capital assets

Capital assets are stated at cost less applicable tax credits and non-repayable government grants. Amortization of capital assets is recorded on a declining-balance basis at the following annual rates:

Building	4%
Equipment	20%
Computer software	100%
Furniture and fixtures	20%

Building improvements are amortized on a straight-line basis over five years. Computer and demo equipment assets are amortized on a straight-line basis over three years.

The Company monitors the recoverability of long-lived assets, based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset. To September 30, 1999, no impairment losses have been recorded.

f Research and development

Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet certain criteria under generally accepted accounting principles for deferral and amortization. The Company has determined that none of the development costs have met these criteria. Research and development costs are offset by funding from related development contracts. The Company has no obligation to repay the funds received under these contracts. Development contracts involve the planning, development, and installation of a product to meet a customer's needs. Funding from development contracts is recognized on the percentage of completion basis.

g Foreign currency translation

The consolidated financial statements of the Company are presented in United States (U.S.) dollars. To the extent that the Company generates funds or incurs costs in other currencies, these transactions are translated into U.S. dollars at rates which are representative of the underlying transaction. Accordingly, monetary assets and liabilities are translated at the rate prevailing at the balance sheet date. Non-monetary assets and liabilities are recorded at the rate prevailing at the date of the transaction. Revenues and expenses are translated at an average rate during the year. Exchange gains and losses are included in income. The exchange loss for the year ended September 30, 1999 is $132 (1998 – $1,776; 1997 – $194).

h Revenue recognition

Revenue from sales of prepress equipment is recognized when title passes to the customer or upon customer acceptance. Customer acceptance is used as the criterion for revenue recognition when the product sold does not have an established sales history to allow management to reasonably estimate returns and future provisions.

Revenue from workflow systems is recognized in accordance with AICPA Statement of Position 97-2, which allows revenue recognition once a sales arrangement exists, delivery has occurred, the revenue is determinable, and collectibility is probable, which is upon acceptance of the system by the customer.

Revenue from service contracts is recognized as the services are provided.

i Investment tax credits

Investment tax credits are accounted for using the cost-reduction method whereby such credits are deducted from the expenditures or assets to which they relate.

j Income taxes

The Company recognizes and measures, as assets and liabilities, income taxes currently payable or recoverable as well as future taxes which will arise from the realization of assets or settlement of liabilities at their carrying amounts, which differ from their tax bases. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which such temporary differences are expected to be recovered or settled. A valuation allowance is recognized to the extent the recoverability of future income tax assets is not considered more likely than not.

k Advertising costs

The Company expenses advertising costs as incurred.

l Comparative figures

In fiscal 1998, the Company's deficit was increased to reflect a change in the amortization of computer and demo equipment and to reflect the assignment of value to shares issued as incentives to employees. As at October 1, 1997 the increase to the deficit was $5,233 of which $488 related to the amortization of capital assets and $4,745 related to shares issued as incentives to employees. Net earnings for 1997 were reduced by $244 from the amount previously reported.

Certain comparative figures have been reclassified to conform with the basis of presentation adopted in the current year.

2 JOINT VENTURE

Effective October 1, 1997, the Company entered into a 50%-owned unincorporated joint venture with Heidelberger Druckmaschinen AG (Heidelberg) with respect to the design, manufacture, and marketing of certain digital prepress equipment. The joint venture has no assets or liabilities. The consolidated financial statements include the following amounts representing the Company's proportionate share of the operations of the joint venture:

Consolidated Statements of Operations	*Years Ended September 30*		
	1999	1998	1997
Revenues	**$ 57,631**	$ 35,542	$ –
Cost of sales	**25,611**	17,896	–
Gross profit	**32,020**	17,646	–
Research and development	**7,189**	4,109	–
Net income	**$ 24,831**	$ 13,537	$ –

Consolidated Statements of Cash Flows	*Years Ended September 30*		
	1999	1998	1997
Cash provided by operating activities	**$ 24,831**	$ 13,537	$ –

3 ACCOUNTS RECEIVABLE

Included in accounts receivable as at September 30, 1999 is $2,345 in interest-free share-purchase loans. The loans are due between March 31, 2000 and June 30, 2000 and are secured by 345,586 shares of the Company. The market value of the shares held as security as at September 30, 1999 is $8,488.

4 INVENTORIES

	September 30	
	1999	1998
Materials	**$ 15,321**	$ 11,722
Work-in-progress	**8,256**	7,240
Finished goods	**8,670**	6,189
	$ 32,247	$ 25,151

CAPITAL ASSETS

	September 30 1999	1998
Land	$ 9,453	$ 9,453
Building	17,473	14,517
Building improvements	3,700	2,685
Equipment	5,926	4,357
Computer and demo equipment	15,501	10,994
Computer software	4,752	3,347
Furniture and fixtures	3,456	2,716
	60,261	48,069
Less: accumulated amortization	19,543	13,923
	$ 40,718	$ 34,146

Building includes $2,468 (1998 – nil) in construction-in-progress on which amortization will be charged upon completion of construction.

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30 1999	1998
Trade payables	$ 13,691	$ 7,561
Wages and benefits	11,633	6,118
Retrofit liabilities	3,910	3,278
Royalties	910	921
	$ 30,144	$ 17,878

LONG-TERM DEBT

	September 30 1999	1998
Royal Bank of Canada		
First mortgage secured by properties in Delta and Burnaby, B.C. Interest at 8.05% per annum maturing February 4, 2002	$ 6,660	$ 6,956
Eastman Kodak Company		
Unsecured, interest-free loan repayable in installments on or before September 30, 2006	–	647
	6,660	7,603
Less: current portion	296	943
	$ 6,364	$ 6,660

On November 3, 1999, the Company repaid in full its first mortgage to Royal Bank of Canada.

The Company currently has $15 million available through a credit facility with Royal Bank of Canada at LIBOR plus 1% which has not been drawn upon at September 30, 1999.

The Company has entered into an interest rate swap agreement with Royal Bank of Canada which converted the first mortgage floating rate debt at LIBOR plus 1.5% into debt which has a fixed rate of 8.05% until February 4, 2002. As at September 30, 1999, the swap has an estimated fair market value of $57 (1998 – $341) in favor of Royal Bank of Canada.

In the year ended September 30, 1999, the Company incurred interest expense on long-term debt of $450 (1998 – $525; 1997 – $408), which was charged to operations. In the year ended September 30, 1999, the Company paid interest on long-term debt of $533 (1998 – $605; 1997 – $338).

SHARE CAPITAL

A two-for-one share split of common shares took effect on May 4, 1999. All information relating to common shares has been restated to retroactively reflect this share split.

a Authorized

The authorized capital of the Company consists of an unlimited number of voting common shares without par value and an unlimited number of preferred shares issuable in series.

b Issued and outstanding

There have been no preferred shares issued. Common shares issued and outstanding are as follows:

Common Shares Issued and Outstanding

	NUMBER OF COMMON SHARES	STATED VALUES
Outstanding, September 30, 1996	21,611,492	$ 34,015
Issued as incentives to employees	15,500	102
Issued for cash, net of costs	3,371,264	24,254
Outstanding, September 30, 1997	24,998,256	58,371
Issued as incentives to employees	6,208	78
Issued for cash from share options	47,698	158
Tax benefit of share issue costs	–	247
Outstanding, September 30, 1998	25,052,162	58,854
Issued for cash, net of costs	6,962,962	74,611
Issued for cash from share options	403,570	2,545
Tax benefit of share issue costs	–	2,192
Outstanding, September 30, 1999	32,418,694	$ 138,202

c Share option plan

The Company has reserved 8,000,000 shares under the 1996 Stock Option Plan (amended). The plan provides for the granting of share options at the fair market value of the Company's shares at the grant date. Options generally vest immediately and have a five year term. Share option activity is presented below:

Share Option Activity

	NUMBER OF COMMON SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, September 30, 1996	789,608	$ 4.80
Granted	1,677,518	6.25
Outstanding, September 30, 1997	2,467,126	5.78
Granted	832,744	11.29
Exercised	(47,698)	3.12
Outstanding, September 30, 1998	3,252,172	7.23
Granted	1,357,924	9.37
Exercised	(403,570)	6.42
Outstanding, September 30, 1999	4,206,526	8.16

The options outstanding at September 30, 1999 expire between August 31, 2000 and January 4, 2004.

The following table summarizes information about the Company's share options outstanding at September 30, 1999:

Share Options Outstanding

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
Range of Exercise Price	NUMBER OUTSTANDING AT SEPT. 30, 1999	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT SEPT. 30, 1999	WEIGHTED AVERAGE EXERCISE PRICE
$ 2.56	50,000	1.7	$ 2.56	50,000	$ 2.56
$ 2.57 – $ 5.00	729,018	1.3	4.94	729,018	4.94
$ 5.01 – $ 7.50	1,341,356	2.5	6.82	1,169,356	6.82
$ 7.51 – $ 10.00	1,345,838	4.3	9.37	1,320,332	9.37
$10.01 – $ 12.50	740,314	3.3	11.93	732,864	11.93
	4,206,526	3.0	8.16	4,001,570	8.20

d Warrants

The Company issued warrants to purchase 24,598 shares on or before June 2, 2002 as consideration for raising capital in 1997. The exercise price of each warrant is $9.38.

	Years Ended September 30		
	1999	1998	1997
Research and development expenses	**$ 31,269**	$ 19,123	$ 14,877
Research and development funding:			
Development contract revenue	**(12,607)**	(8,464)	(1,405)
Investment tax credits	**(4,857)**	(3,728)	(700)
Research and development, net	**$ 13,805**	$ 6,931	$ 12,772

	Years Ended September 30		
	1999	1998	1997
Canada	**$ 27,379**	$ 12,891	$ 7,010
Foreign	**3,515**	4,875	1,325
Total	**$ 30,894**	$ 17,766	$ 8,335

...onsists of the following:

		Years Ended September 30		
		1999	1998	1997
Current:	Canada	**$ 10,268**	$ 5,369	$ 1,375
	Foreign	**1,243**	528	1,503
Total current		**11,511**	5,897	2,878
Future:	Canada	**789**	1,071	(21)
	Foreign	**34**	(292)	(359)
Total future		**823**	779	(380)
Total income tax provision		**$ 12,334**	$ 6,676	$ 2,498

	Years Ended September 30		
	1999	1998	1997
Combined Canadian federal/provincial tax rate	**45.6 %**	45.6 %	45.6 %
Increased (reduced) by:			
Manufacturing and processing credits	**(5.5)**	(5.4)	(1.3)
Foreign exchange translation not deducted for tax	**(3.4)**	6.5	–
Foreign losses (utilized) not recognized	–	(6.5)	7.3
Future income tax assets not recognized	–	–	(21.6)
Foreign tax rate increase (reduction)	**0.2**	(1.8)	(2.7)
Amounts not deductible for tax and other	**3.0**	(0.8)	2.7
Effective rate	**39.9 %**	37.6 %	30.0 %

...e as follows:

	September 30	
	1999	1998
Current future income tax asset (liability):		
Investment tax credit revenue	**$ (1,887)**	$ (998)
Revenue recognition	**195**	31
Retrofit liability and other	**830**	933
Total current future income tax	**$ (862)**	$ (34)

	September 30	
	1999	1998
Long-term future income tax asset (liability):		
Capital assets	**$ 69**	$ (412)
Financing costs	**1,998**	359
Total long-term future income tax	**$ 2,067**	$ (53)

In the year ended September 30, 1999, the Company paid income taxes of $3,635 (1998 – $1,683; 1997 – $270).

As at September 30, 1999, the Company has unused investment tax credits totaling approximately $5,200 available to reduce future Canadian federal income taxes. These tax credits expire in varying amounts to 2009.

11 Earnings per common share

Basic earnings per common share is calculated by dividing the net earnings for the year by the weighted average number of common shares outstanding during the year: 1999 – 28,369,402 (1998 – 25,024,788; 1997 – 22,769,212).

Fully diluted earnings per share is based on the assumptions that all outstanding options and warrants in note 8 were exercised at the beginning of the year and that the funds derived therefrom had been invested to produce an annual return of 3% after income taxes for the year ended September 30, 1999 (1998 – 4%; 1997 – 3%). The amount of income imputed after income taxes was $673 for the year ended September 30, 1999 (1998 – $1,329; 1997 – $1,559).

12 Financial instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate their fair value due to their short-term maturities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of long-term debt approximates fair value. The fair value of the interest rate swap is disclosed in Note 7.

Significant amounts of the Company's expenditures are denominated in Canadian dollars. Fluctuations in the exchange rate between Canadian and U.S. dollars could have a material effect on the Company's business, financial condition, and results of operations. The Company has not entered into foreign currency contracts or other instruments to mitigate this risk.

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily accounts receivable. The Company performs ongoing credit evaluations of its customers' financial conditions and requires letters of credit or other guarantees whenever deemed necessary.

13 Commitments and contingencies

The Company is party to certain operating leases under which the future minimum lease payments as at September 30, 1999 are approximately as follows:

2000	$ 1,609
2001	1,119
2002	825
2003	489
2004	272
Thereafter	385
	$ 4,699

Total rent expense for the year ended September 30, 1999 was $1,306 (1998 – $1,072; 1997 – $638).

Year 2000 issues arise because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. The effects of year 2000 issues may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of year 2000 issues affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

14 Segmented financial information

The Company operates in a single reportable operating segment relating to digital prepress equipment. The Company generated revenue from the development and sale of digital prepress equipment to customers in the following geographic segments:

Revenue Generated by Geographic Region	*Years Ended September 30*		
	1999	1998	1997
Canada	**$ 4,059**	$ 3,193	$ 3,134
U.S.	**105,953**	71,927	62,441
Europe	**56,252**	41,655	15,718
Japan	**2,647**	5,316	9,936
Other	**9,412**	6,757	4,354
	$ 178,323	$ 128,848	$ 95,583

There were no customers representing 10% or more of total revenue in the year ended September 30, 1999, or the 1998 fiscal year. There was one customer in 1997 representing approximately 10% of total revenue.

The Company has capital assets located in:

Location of Capital Assets	*September 30*	
	1999	1998
Canada	**$ 37,678**	$ 31,914
Other	**3,040**	2,232
	$ 40,718	$ 34,146

Differences Between Canadian and United States Accounting Principles and Practices

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP), which differ in certain respects from those principles and practices that the Company would have followed had its consolidated financial statements been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP).

a Change in accounting policy

In fiscal 1998, the Company changed its amortization policy for computer and demo equipment from the declining balance method at 30% per year to the straight-line method over 3 years. Under U.S. GAAP, the change would be accounted for prospectively from October 1, 1997 and the cumulative effect of the change would be disclosed as a separate item in the determination of net earnings.

The effect of this difference would be:

Change of Amortization Policy	Years Ended September 30		
	1999	1998	1997
Net earnings under Canadian GAAP	**$ 18,560**	$ 11,090	$ 5,837
Reverse retroactive impact of change in accounting policy	–	–	244
Earnings before cumulative effect of change in accounting policy under U.S. GAAP	**18,560**	11,090	6,081
Cumulative effect of change in accounting policy	–	(732)	–
Net earnings under U.S. GAAP	**18,560**	10,358	6,081
Retained earnings (deficit), beginning of year under U.S. GAAP	**3,194**	(7,164)	(13,245)
Retained earnings (deficit), end of year under U.S. GAAP	**$ 21,754**	$ 3,194	$ (7,164)
Earnings per share:			
Basic earnings per share	**$ 0.65**	$ 0.41	$ 0.27
Diluted earnings per share	**$ 0.62**	$ 0.38	$ 0.25

The cumulative effect of the change in accounting policy reduced basic earnings per share for the year ended September 30, 1998 by $0.03 and diluted earnings per share for the year ended September 30, 1998 by $0.03. Comprehensive earnings is the same as net earnings under U.S. GAAP for all periods presented.

b Earnings per share

During 1997, the Company adopted Statement of Financial Accounting Standard No. 128, Earnings Per Share for U.S. GAAP purposes. Diluted earnings per share under U.S. GAAP is based on the weighted average number of Common Shares outstanding, which considers the dilutive effect of share options and warrants by applying the Treasury Stock method.

Under Canadian GAAP, net income is adjusted in the calculation of fully diluted earnings per share by adding to net income the impact of imputed income that is assumed to result from earnings on the proceeds from the exercise of outstanding options and warrants. Under U.S. GAAP, no such adjustment is made to net income in calculating diluted earnings per share. Instead, under U.S. GAAP, for purposes of determining the weighted average number of shares outstanding in this calculation the proceeds deemed to be received on exercise of outstanding dilutive securities are applied towards the repurchase of issued common shares at their market value. The following weighted average number of shares was used for the computation of diluted earnings per share:

Weighted Average Number of Shares	Years Ended September 30		
	1999	1998	1997
Weighted average shares used in computation of basic earnings per share	**28,369,402**	25,024,788	22,769,212
Weighted average shares from assumed conversion of dilutive options	**1,511,062**	2,011,202	1,422,132
Weighted average shares used in computation of diluted earnings per share	**29,880,464**	27,035,990	24,191,344

c Statement of cash flows

Under U.S. GAAP, no subtotal would be provided in the operating section of the statements of cash flows.

d Impairment of long-lived assets

Under Canadian GAAP, an impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset. Under U.S. GAAP, an impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the fair value of the asset. To September 30, 1999, no impairment losses have been recorded under Canadian or U.S. GAAP and, accordingly, no material differences due to these policies have arisen.

e Joint venture

The accounts of the Company's joint-venture investment are proportionately consolidated (see note 2). Under U.S. GAAP, proportionate consolidation is not permitted. However, under rules promulgated by the United States Securities and Exchange Commission, a foreign registrant may, subject to the provision of additional information which is set out in Note 2, continue to apply proportionate consolidation for purposes of its filings, notwithstanding the departure from U.S. GAAP. Accordingly, the financial statements have not been adjusted to restate the accounting under U.S. GAAP.

f Stock-based compensation

The Company has elected to continue to apply the guidance set out in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee share options. Under APB 25, because the exercise price of the Company's employee share option equals the estimated fair value of the underlying share on the date of grant, no compensation cost is recognized.

Pro forma information regarding net earnings and earnings per share is required by Statement of Financial Accounting Standards No. 123 (FAS 123), Accounting for Stock-Based Compensation, for U.S. GAAP. Had compensation cost for the Company's share option plan been determined based on the fair value at the grant date for awards under those plans consistent with the measurement provisions of FAS 123, the Company's net earnings and earnings per share under U.S. GAAP would have been adjusted.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option valuation model with the following assumptions:

Assumptions for Fair Value	*Years Ended September 30*		
	1999	1998	1997
Expected dividend yield	**0%**	0%	0%
Expected stock price volatility	**49%**	50%	51%
Risk-free interest rate	**6.0%**	5.5%	5.0%
Expected life of options	**5 YEARS**	5 YEARS	5 YEARS

Adjusted net earnings and earnings per share	*Years Ended September 30*		
	1999	1998	1997
Net earnings under U.S. GAAP	**$ 18,560**	$ 10,358	$ 6,081
Fair value of options granted (note 8)	**(6,426)**	(5,452)	(4,835)
Net earnings – pro forma	**$ 12,134**	$ 4,906	$ 1,246
Basic earnings per share – pro forma	**$ 0.43**	$ 0.20	$ 0.05
Diluted earnings per share – pro forma	**$ 0.41**	$ 0.18	$ 0.05

Pro forma amounts reflect options granted after the 1995 fiscal year.

For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting period on a straight-line basis.

g Share-purchase loans

Under U.S. GAAP, share-purchase loans would be deducted from share capital rather than being included in accounts receivable. As a result, shareholders' equity and accounts receivable would decrease by $2,345, under U.S. GAAP.

h Supplementary information: allowance for doubtful accounts

Accounts receivable are disclosed net of allowance for doubtful accounts as follows:

	Years Ended September 30		
	1999	1998	1997
Charged to expenses	**$ 358**	$ 51	$ 426
Balance, end of year	**$ 114**	$ 180	$ 391

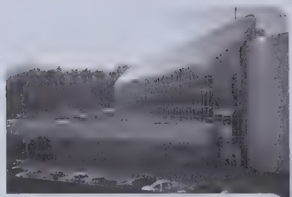
BOARD OF DIRECTORS AND CREO MANAGEMENT TEAM

The following table presents information about our Board of Directors and the Creo Management Team, as of September 30, 1999:

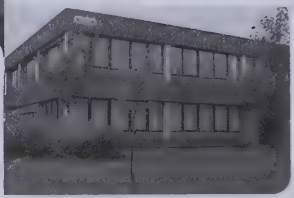
Amos Michelson	Chief Executive Officer, Creo
Dan Gelbart	President and Chief Technology Officer, Creo
Raffi Amit, Ph.D.	Chair of the Board Professor, The Wharton School, University of Pennsylvania
David A. Bennett	Managing Director, Business Development Bank of Canada
Thomas D. Berman	Executive Director, Brinson Partners, Inc.
John J. Bu	Managing Director, Goldman, Sachs & Co.
Douglas H. Richardson	Director of Technology, Imaging and Media, Creo
Kenneth A. Spencer, Ph.D	Corporate Director
Charles Young	President, Marin Investments

Amos Michelson	Chief Executive Officer
Dan Gelbart	President
Michael D. Ball	Vice President, Business Development
David Brown	Vice President, Business Strategy
Mark N. Dance	Vice President and Chief Operating Officer
Philippe H. Favreau	Vice President, Manufacturing
Kevin M. Joyce	Vice President, Sales of Creo Inc.
Thomas A. Kordyback	Vice President, Finance, Chief Financial Officer and Secretary
Robert J. Mielcarski	Vice President, Business Systems and Technology
Boudewijn P. Neijens	General Manager of Creo Products N.V.
B. Darcy O'Grady	Vice President, Human Resources
Michael Rolant	Vice President, Customer Support

3700 Gilmore Way
Burnaby, BC
Canada V5G 4M1
TEL **604.451.2700**
FAX 604.437.9891



www.creo.com



Northeast
TEL 978.937.8200
Central
TEL 630.250.3170
Western
TEL 714.736.5820
Southern
TEL 770.951.9050

Brussels, Belgium
TEL +32.2.711.1400
FAX +32.2.720.9671

Sydney, Australia
TEL +61.2.93.18.5262
FAX +61.2.93.18.5204

INVESTOR INFORMATION

INVESTOR RELATIONS
Creo Products Inc.
3700 Gilmore Way
Burnaby, BC
Canada V5G 4M1
TEL 604.451.2700
FAX 604.437.9891
EMAIL IR@creo.com
INTERNET www.creo.com

TRANSFER AGENT AND REGISTRAR
Montreal Trust Company of Canada
Stock and Bond Transfer Department
510 Burrard St.
Vancouver, BC
Canada V6C 3B9
TEL 604.661.0222
FAX 604.661.9498

LISTING
Creo Products Inc. is listed on the Toronto Stock Exchange under the trading symbol CRE, and on the NASDAQ National Market under the trading symbol CREO.

TRADEMARKS

If you wish to be included on the mailing list for supplemental Creo reports, please complete this form and return it by mail or facsimile +1-604-437-9891. If this card is not returned, we will assume that you do not wish to receive any supplemental reports.

NAME ____________________

TITLE ____________________ COMPANY ____________________

ADDRESS ____________________

CITY ____________________ STATE/PROVINCE ____________________

ZIP / POSTAL CODE ____________________ COUNTRY ____________________

TELEPHONE ____________________ FAX ____________________

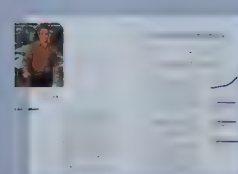
EMAIL ____________________

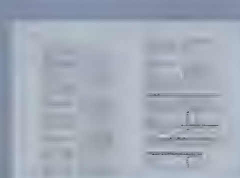
SHAREHOLDER ◯ YES ◯ NO

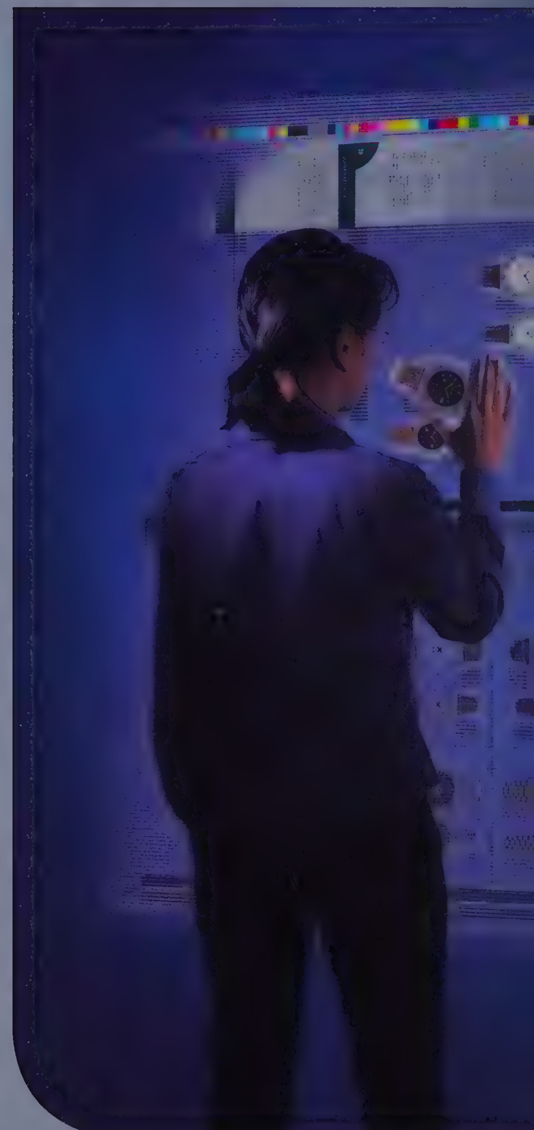
DESCRIPTION ◯ ANALYST ◯ CORPORATE FINANCE ◯ FINANCIAL ADVISOR ◯ PORTFOLIO MANAGER ◯ INDIVIDUAL INVESTOR ◯ LIBRARY ◯ OTHER ____________________

MEDIA ◯ TRADE ◯ BUSINESS ◯ GENERAL ◯ INTERNATIONAL

DO YOU WISH TO RECEIVE PRESS RELEASES FROM CREO VIA EMAIL OR FAX? ◯ YES ◯ NO







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This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities commission or similar authority in Canada or the United States has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.

Initial Public Offering and Secondary Offering July 28, 1999

CREO PRODUCTS INC.

C$113,325,000

5,000,000 Common Shares

Creo Products Inc. is selling 4,000,000 of its common shares and the selling shareholders named in this prospectus are selling 1,000,000 common shares. Creo will not receive any proceeds from the sale of common shares by the selling shareholders. The underwriters named in this prospectus have the option to purchase up to 750,000 additional common shares from the selling shareholders to cover over-allotments. The common shares are being offered for sale in the provinces of British Columbia, Manitoba and Ontario and in the United States pursuant to a registration statement filed with the United States Securities and Exchange Commission.

There is currently no public market through which the common shares may be sold. The Toronto Stock Exchange has conditionally approved the listing of the common shares subject to fulfillment of all of the requirements of that exchange on or before September 22, 1999, including the distribution of the common shares to a minimum number of public shareholders. The common shares will be listed under the symbol ''CEC''. The common shares have been approved for quotation on the Nasdaq National Market under the symbol ''CREO''. The offering price of the common shares has been determined by negotiation between Creo the selling shareholders and the underwriters. **. The offering price of each common share offered hereunder exceeds the net tangible book value thereof as at March 31, 1999, after giving effect to this offering, by $ 10.48, resulting in dilution of 69.9%. See ''Dilution.''**

Prior to investing in the common shares, prospective purchasers should consider carefully the risks described under ''Risk Factors.''

Price: C$22.665 per Common Share

	Price to the Public	Underwriting Commission	Net Proceeds to Creo (1)	Net Proceeds to Selling Shareholders (1)
Per Common Share (2)	C$ 22.665	C$ 1.587	C$ 21.078	C$ 21.078
Total (2)(3)	C$113,325,000	C$7,935,000	C$84,312,000	C$21,078,000

Notes:

(1) Before deducting the expenses of this offering, estimated at C$1,250,000, payable by Creo (on its own behalf and on behalf of the selling shareholders).

(2) The Price to the Public, Underwriting Commission, Net Proceeds to Creo and Net Proceeds to Selling Shareholders for common shares sold in Canada are payable in Canadian dollars and are the approximate equivalent of the Price to the Public and related amounts for common shares sold in the United States based on the prevailing U.S.—Canadian dollar exchange rate as at the date of this prospectus.

(3) The selling shareholders have granted to the underwriters an option to acquire up to an aggregate of 750,000 additional common shares at the Price to the Public to cover over-allotments, if any. The over-allotment option expires 30 days after the date of this prospectus. If the over-allotment option is exercised in full, the total Price to the Public, Underwriting Commission and Net Proceeds to Selling Shareholders will be C$130,323,750, C$9,125,250, and C$36,886,500. Creo will not receive any proceeds from the exercise of the over-allotment option. This prospectus also qualifies the distribution of the common shares issuable upon the exercise of the over-allotment option. See ''Underwriting.''

The underwriters, as principals, conditionally offer the common shares, subject to prior sale, if, as and when issued and sold by Creo and sold by the selling shareholders and delivered to the underwriters and accepted by them in accordance with the conditions contained in the underwriting agreement referred to under ''Underwriting'', and subject to the approval of certain legal matters on behalf of Creo by Getz Prince Wells, Canadian counsel to Creo, and Wilson Sonsini Goodrich & Rosati, United States counsel to Creo, and on behalf of the underwriters by Osler, Hoskin & Harcourt, Canadian counsel to the underwriters, and Munger, Tolles & Olson LLP, United States counsel to the underwriters.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that certificates evidencing the common shares will be available for delivery at closing, which will take place on or about August 5, 1999, but in any event not later than August 10, 1999.

In this prospectus, references to $ and U.S.$ are to United States dollars and references to C$ are to Canadian dollars.

It is important to us that Creo be recognized as a company that cares about customer success.

Creo Products Inc. is a leading developer, manufacturer and distributor of advanced digital systems that transfer computer files directly onto printing plates. Our solutions are designed to enable commercial printers to operate their presses more profitably and to respond to increasing customer demands for tighter deadlines, higher color quality and shorter print runs.

You should rely only on the information contained in this prospectus. Creo has not authorized anyone to provide you with different information. Creo is not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information provided by this prospectus is accurate as at any date other than the date of this prospectus.

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All dollar amounts in this prospectus are expressed in United States dollars, except where we indicate otherwise. Unless we indicate otherwise, all references to ''U.S.$'' or ''$'' are to U.S. dollars and all references to ''C$'' are to Canadian dollars. As at March 31, 1999, the noon buying rate in New York City for cable transfers in Canadian dollars was U.S.$1.00 = C$1.5092. As at July 28, 1999, the noon buying rate in New York City for cable transfers in Canadian dollars was U.S. $1.00 = C$1.5110.

This prospectus contains trademarks and registered trademarks of Creo and other companies.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. Because this is only a summary, it does not contain all of the information that you should consider before buying shares in this offering. You should read the entire prospectus carefully.

Please also note that, except where otherwise indicated:

- *The capitalization information in this prospectus is based upon information as of March 31, 1999.*
- *The information in this prospectus takes into account a 2-for-1 stock split effected in May 1999.*
- *The information in this prospectus assumes no exercise of the underwriters' over-allotment option.*
- *In this prospectus, ''Creo,'' ''we,'' ''us,'' and ''our'' refer to Creo Products Inc. and its subsidiaries.*

Creo Products Inc.

Creo is a leading developer, manufacturer and distributor of comprehensive ''computer-to-plate'' (CTP) digital solutions that automate the prepress phase of commercial printing, in which master printing plates are created prior to actual printing. See ''Business—The Conventional Prepress Process''. Our computer-to-plate technology transfers digitized text, graphic images and line artwork from desktop publishing computer systems directly onto printing plates, eliminating labor-intensive, complex and costly preparatory steps required by the conventional prepress process. We offer a comprehensive line of precision imaging equipment, including scanners, proofing devices and output devices, as well as workflow management software. See ''Business—Products''. The principal features of our solutions are:

- *End-to-End Prepress Solutions.* Our solutions integrate a complete range of Creo products that address the entire prepress process.
- *Open Architecture and Connectivity.* Our solutions support industry-standard file formats, accommodate a wide variety of input media and are adaptable to emerging file formats.
- *Modularity and Versatility.* The components of our solutions are modular and can be used separately or assembled in a variety of configurations to meet the needs of customers with varying print volumes and press sizes.
- *Knowledgeable and Comprehensive Customer Support.* We offer comprehensive pre-sale evaluation, installation, system integration, training and post-sale support through our knowledgeable and experienced field service organization in our industry.

Our computer-to-plate technologies enable printers to use printing presses more profitably, while improving their ability to meet customer demands for tighter deadlines, better and more consistent color quality, shorter print runs, and greater customization of print jobs.

Since 1994, more than 900 of our computer-to-plate imaging systems have been installed in 29 countries. This is more than twice the number of installed systems of any of our competitors. Nine of the ten largest commercial printers in North America are adopting Creo systems as their computer-to-plate solution. Creo systems are currently used in the production of high-circulation glossy magazines, including *Glamour, Newsweek, Scientific American, Sports Illustrated* and *Time*, as well as other documents such as color brochures and catalogs.

Although many of the largest commercial printers have begun to adopt computer-to-plate solutions, we believe the market is still developing, especially among small and mid-size commercial printers, most of whom

have not adopted computer-to-plate solutions. We believe that less than 20% of commercial printers in the world currently use computer-to-plate solutions. According to a June 1999 report prepared for Creo by Cloud Information Services, an industry research group based in Nashua, New Hampshire, computer-to-plate unit shipments worldwide are expected to grow at a compound annual growth rate of over 25% from 1999 through 2003.

We have demonstrated leadership in developing innovative prepress technology. For example, we were the first to commercialize a fully integrated high-speed computer-to-plate solution. Our innovations have helped to establish thermal imaging, in which laser beams are used to precisely imprint heat-sensitive printing plates, as the industry standard for computer-to-plate technology. See ''Business—The Creo Solution''. Our research and development efforts are currently focused on next-generation digital prepress technology, including digital offset press products, which transfer digital data directly onto a printing press. As of March 31, 1999, we held 30 U.S. and foreign patents, and had 39 U.S. and foreign patent applications pending.

An important part of our growth strategy has been establishing strategic alliances with major industry participants. In October 1997, we formed a joint venture with Heidelberger Druckmaschinen AG, to develop, manufacture, market and distribute our computer-to-plate solutions worldwide. Heidelberg is the world's largest press manufacturer, with offices in more than 160 countries. Heidelberg has substantial international marketing and distribution channels for commercial printing presses and prepress equipment, and an extensive customer support and service organization. In the six months ended March 31, 1999, our product revenue from the joint venture was $27.1 million, which represented 34.8% of our total revenue. We have also entered into a separate agreement with Heidelberg to collaborate on the development of digital offset press technology. See ''Business—Our Joint Venture with Heidelberg''.

Our principal office is located at 3700 Gilmore Way, Burnaby, British Columbia, Canada, V5G 4M1, and our telephone number is (604) 451-2700. This prospectus contains trademarks and registered trademarks of Creo and of other companies.

The Offering

Common shares offered by Creo	4,000,000 shares
Common shares offered by the selling shareholders	1,000,000 shares
Total	5,000,000 shares
Common shares to be outstanding after the offering	32,027,854 shares
Use of proceeds	We intend to use the proceeds of this offering for working capital and other general corporate purposes.
Nasdaq National Market Symbol	CREO
Toronto Stock Exchange Symbol	CEC

We are obligated to issue common shares upon exercise of outstanding options and warrants in addition to the common shares to be outstanding after the offering. If and when these options and warrants are exercised, the percentage of common shares you own will be diluted. The following is a summary of the additional issuable common shares:

- 4,595,232 common shares issuable upon exercise of outstanding options, which have a weighted average exercise price of C$11.75 per share; and
- 24,598 common shares issuable upon exercise of outstanding warrants, which have a weighted average exercise price of $9.38.

Risk Factors

An investment in our shares is subject to certain risk factors that you should carefully consider. See ''Risk Factors''. These risk factors include the following:

- if our computer-to-plate solutions do not gain broad market acceptance among small and mid-size printers, our revenues will be flat or will decline;
- if our joint venture with Heidelberg is unsuccessful or is terminated, our operating costs will increase if we are not able to rechannel our resources quickly enough, and our revenues will also decline;
- we must continue to overcome significant and increasing competition in the digital prepress market in order to continue our growth and profitability;
- our operating results may fluctuate;
- if we are unable to maintain our supply of key product components that are produced by a limited number of suppliers, we will not be able to deliver our products to our customers on a timely basis;
- our products may have unforeseen defects, which could harm our reputation, impede market acceptance of our products and negatively impact our operating results;
- if we are not able to continue to establish and maintain relationships with plate suppliers and press manufacturers, our ability to grow our business will suffer;
- adapting to new technologies such as digital offset printing technology, and to changing customer preferences, such as a greater customization of print jobs, will cause us to incur substantial costs, and if we are unable to adapt, our products and services may become obsolete;
- if we are not able to retain our Chief Executive Officer, Amos Michelson, our President and chief technologist, Daniel Gelbart, and other key personnel, our business would lose its key executive leadership and our ability to maintain our competitive position would be jeopardized;
- our failure to protect our intellectual property and proprietary technology may significantly impair our competitive position;
- if others claim that our products infringe upon their intellectual property rights, we may be forced to seek expensive licenses, reegineer our products, engage in expensive and time-consuming litigation or stop marketing the challenged products;
- if we are not able to manage our growth effectively, we may not be able to maintain or improve our current level of profitability;
- our efforts to increase our presence in markets outside of North America may result in losses and may not be successful in generating additional revenue;
- fluctuations in the values of Canadian dollars and Belgian francs will cause translation gains and losses and may cause our expenses to increase to levels greater than we anticipate;
- if our products or the products upon which we depend malfunction because of ''Year 2000'' problems, we may be subject to warranty claims and product liability claims and we could experience a significant disruption in our business and be required to expend significant internal resources on Year 2000 remediation;
- there may be no active trading market in our common shares after this offering, which may make it difficult for you to resell your shares; and
- a total of 27,027,854, or 84.4%, of our outstanding shares are restricted from immediate resale but may be sold into our public trading market following the completion of this offering.

Summary Selected Financial Data

Our consolidated financial statements were prepared in accordance with Canadian GAAP, which differs from United States GAAP. The "As Adjusted" numbers in the table below reflect the sale of the 4,000,000 common shares offered by Creo at the public offering price of $15.00 per share and the receipt of net proceeds from this offering.

	Year Ended September 30,					Six Months Ended March 31,	
	1994	1995	1996	1997	1998	1998	1999
						(unaudited)	
	(in thousands, except per share data)						
Amounts under Canadian GAAP							
Statement of Operations Data:							
Total revenue	$ 6,089	$19,835	$47,938	$95,583	$128,848	$ 59,249	$ 78,057
Gross profit	1,500	4,968	16,172	41,949	57,631	26,060	37,369
Earnings (loss) from operations	(3,312)	(8,074)	(7,360)	8,287	19,346	8,847	13,715
Net earnings (loss)	(2,560)	(5,323)	(7,243)	5,837	11,090	5,126	7,631
Basic earnings (loss) per share	$ (0.17)	$ (0.30)	$ (0.34)	$ 0.26	$ 0.44	$ 0.21	$ 0.28
Fully diluted earnings (loss) per share	$ (0.17)	$ (0.30)	$ (0.34)	$ 0.24	$ 0.41	$ 0.19	$ 0.25
Shares used in per share calculation							
Basic	15,075	17,848	21,209	22,769	25,025	24,998	27,276
Fully diluted	15,075	17,848	21,209	30,428	30,502	30,499	32,648

	As at March 31, 1999	
	Actual	As Adjusted
	(unaudited) (in thousands)	
Balance Sheet Data:		
Cash and cash equivalents	$ 37,150	$ 92,100
Working capital	59,039	113,989
Total assets	136,890	191,840
Shareholders' equity	89,742	144,692

	Year Ended September 30,					Six Months Ended March 31,	
	1994	1995	1996	1997	1998	1998	1999
						(unaudited)	
	(in thousands, except per share data)						
Amounts under U.S. GAAP							
Net earnings (loss)	$(2,469)	$(5,231)	$(6,938)	$ 6,081	$ 10,358	$ 4,394	$ 7,631
Basic earnings (loss) per share	$ (0.16)	$ (0.29)	$ (0.33)	$ 0.27	$ 0.41	$ 0.18	$ 0.28
Diluted earnings (loss) per share	$ (0.16)	$ (0.29)	$ (0.33)	$ 0.25	$ 0.38	$ 0.16	$ 0.27
Shares used in per share calculation							
Basic	15,075	17,848	21,209	22,769	25,025	24,998	27,276
Diluted	15,075	17,848	21,209	24,191	27,036	27,424	28,067

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties. These statements relate to our future plans, objectives, expectations and intentions. We have identified these statements by the use of words such as ''expects,'' ''anticipates,'' ''intends,'' ''plans'' and similar expressions. Our actual results could differ materially from those discussed in these statements. Factors that could contribute to these differences include, but are not limited to, those discussed above and elsewhere in this prospectus.

USE OF PROCEEDS

The net proceeds to Creo from the sale of the 4,000,000 common shares that we are offering will be approximately $54,950,000, after deducting underwriting commissions and discounts and Creo's estimated expenses in connection with this offering. We will not receive any proceeds from the sale of common shares by the selling shareholders.

The principal purposes of this offering are to increase our working capital, to create a public market for our common shares, to facilitate future access by Creo to public equity markets and to provide us with increased visibility and credibility. We intend to use the net proceeds primarily for general corporate purposes, including working capital. If the opportunity arises, we may use a portion of the net proceeds to acquire or invest in related businesses, products and technologies. We have no commitments or agreements for any material acquisition of, or investment in, any third party. Pending any use of the net proceeds for the above purposes, we intend to invest the funds in short-term, interest-bearing, investment grade securities.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock. We currently expect to retain any future earnings for developing and expanding our business, and therefore we do not currently expect to pay cash dividends in the foreseeable future.

ADDITIONAL INFORMATION ABOUT CREO

Creo was incorporated under the Canada Business Corporations Act on May 30, 1985. We have two operating subsidiaries: Creo Inc., incorporated under the laws of the State of Washington, through which we conduct sales, marketing and service functions in the United States; and Creo Products N.V., incorporated under the laws of Belgium, which performs similar functions for us in Europe. We also have two non-operating subsidiaries: Creo Products ULC, an unlimited liability company incorporated under the laws of Nova Scotia, Canada; and Creo SRL, a Society with Restricted Liability organized under the laws of Barbados.

CAPITALIZATION

The following table presents (1) the actual capitalization of Creo as at March 31, 1999 and (2) the capitalization on an ''As Adjusted'' basis, which reflects the sale of the 4,000,000 common shares offered by Creo at the public offering price of $15.00 per share, and the receipt of net proceeds from this offering.

	As at March 31, 1999	
	Actual	As Adjusted
	(in thousands)	
Long-term debt, less current portion	$ 6,512	$ 6,512
Shareholders' equity:		
Common shares: unlimited voting common shares, without par value, 28,027,854 shares issued and outstanding, actual; 32,027,854 shares issued and outstanding, as adjusted	78,917	133,867
Preferred shares: unlimited preferred shares, no shares issued and outstanding, actual and as adjusted	—	—
Retained earnings	10,825	10,825
Total shareholders' equity	89,742	144,692
Total capitalization	$96,254	$151,204

The outstanding share information in the table above excludes:

- 4,595,232 common shares issuable upon the exercise of options outstanding as at March 31, 1999, at a weighted average exercise price of C$11.75 per share; and
- 24,598 common shares issuable upon the exercise of warrants outstanding as at March 31, 1999, at an exercise price of $9.38 per share.

The long-term debt, which bears interest at 8.05% per annum and matures February 4, 2002, is secured by a first mortgage on certain properties located in Delta and Burnaby, British Columbia. The holder of the long-term debt is a Canadian chartered bank.

DILUTION

If you invest in our common shares, your interest will be diluted by an amount equal to the difference between the public offering price per common share and the net tangible book value per common share after this offering. We calculate net tangible book value per common share by dividing the net tangible book value (total assets less intangible assets and total liabilities) by the number of outstanding common shares.

The net tangible book value of Creo as at March 31, 1999 was $89.7 million or approximately $3.20 per common share. After the sale of the 4,000,000 common shares offered by Creo under this prospectus, at the public offering price per common share of $15.00, and after deducting underwriting commissions and discounts and Creo's estimated expenses in connection with this offering, the net tangible book value of Creo as at March 31, 1999 would have been $144.7 million or approximately $4.52 per common share. This represents an immediate increase in net tangible book value of $1.32 per common share to existing shareholders and an immediate dilution of $10.48 per common share to new investors. The following table illustrates this dilution on a per common share basis:

Public offering price per common share		$15.00
Net tangible book value per common share at March 31, 1999	$3.20	
Increase in net tangible book value per common share attributable to new investors	1.32	
Net tangible book value per common share after the offering		4.52
Dilution in net tangible book value per common share to new investors		$10.48
Dilution as a percentage of offering price		69.9%

The following table summarizes on a pro forma basis as at March 31, 1999 the differences between the number of common shares purchased from Creo, the total consideration paid and the average price per share paid by existing shareholders and by the new investors in the offering, before deducting the underwriting discounts and commissions and estimated offering expenses payable by Creo, at the public offering price of $15.00 per share.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing shareholders	28,027,854	88%	$ 78,917,000	57%	$ 2.82
New investors	4,000,000	12%	60,000,000	43%	$15.00
Total	32,027,854	100%	$138,917,000	100%	$ 4.34

Sales of common shares in the offering by the selling shareholders will reduce the number of shares held by existing shareholders as at March 31, 1999, to 27,027,854 shares or 84.4% of the total number of common shares outstanding after the offering (26,277,854 shares or 82.0% if the underwriters' over-allotment option is exercised in full) and will increase the number of shares held by new investors to 5,000,000 shares or 15.6% of the total number of common shares outstanding after the offering (5,750,000 shares or 18.0% if the underwriters' over-allotment option is exercised in full). See ''Principal and Selling Shareholders.''

The foregoing discussion and tables assume no exercise of any options or warrants after March 31, 1999. As at March 31, 1999, an aggregate of 4,595,232 common shares were issuable upon the exercise of outstanding options at a weighted average exercise price of C$11.75 per share and an aggregate of 24,598 common shares were issuable upon exercise of outstanding warrants at a weighted average exercise price of $9.38. If all options and warrants outstanding as at March 31, 1999 were exercised, the pro forma net tangible book value per share immediately after completion of the offering would be $4.93. This represents an immediate dilution in net tangible book value of $10.07 per share to purchasers of common shares in the offering.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, including the related notes, included elsewhere in this prospectus. The statement of operations data for the years ended September 30, 1996, 1997 and 1998 and the balance sheet data as at September 30, 1997 and 1998 are derived from the audited consolidated financial statements included elsewhere in this prospectus. The statement of operations data for the years ended September 30, 1994 and 1995 and the balance sheet data as at September 30, 1994, 1995 and 1996 are derived from audited financial statements not included in this prospectus. The consolidated financial data as at and for the six months ended March 31, 1998 and 1999 is unaudited.

Our consolidated financial statements are prepared in accordance with Canadian GAAP. These principles conform in all material respects with U.S. GAAP, except as described in note 14 to the consolidated financial statements. All dollar amounts are expressed in United States dollars.

	Year Ended September 30,					Six Months Ended March 31,	
Statement of Operations Data:	1994	1995	1996	1997	1998	1998	1999
						(unaudited)	
	(in thousands, except per share data)						
Amounts under Canadian GAAP							
Revenue:							
Product revenue	$ 6,089	$19,821	$46,210	$91,669	$114,652	$53,220	$64,894
Service revenue	—	14	1,728	3,914	14,196	6,029	13,163
Total revenue	6,089	19,835	47,938	95,583	128,848	59,249	78,057
Cost of sales	4,589	14,867	31,766	53,634	71,217	33,189	40,688
Gross profit	1,500	4,968	16,172	41,949	57,631	26,060	37,369
Research and development, net	2,187	5,920	10,683	12,772	6,931	3,233	5,275
Sales and marketing	1,387	4,620	8,757	14,619	22,417	10,101	14,396
General and administration	1,238	2,502	4,092	6,271	8,937	3,879	3,983
Earnings (loss) from operations	(3,312)	(8,074)	(7,360)	8,287	19,346	8,847	13,715
Other income (expense)	249	424	5	48	(1,580)	(799)	(593)
Earnings (loss) before income taxes	(3,063)	(7,650)	(7,355)	8,335	17,766	8,048	13,122
Income tax expense (recovery)	(566)	(1,090)	(112)	2,498	6,676	2,922	5,491
Earnings (loss) from discontinued operations	(63)	1,237	—	—	—	—	—
Net earnings (loss)	$(2,560)	$ (5,323)	$ (7,243)	$ 5,837	$ 11,090	$ 5,126	$ 7,631
Basic earnings (loss) per share	$ (0.17)	$ (0.30)	$ (0.34)	$ 0.26	$ 0.44	$ 0.21	$ 0.28
Fully diluted earnings (loss) per share	$ (0.17)	$ (0.30)	$ (0.34)	$ 0.24	$ 0.41	$ 0.19	$ 0.25
Shares used in per share calculation:							
Basic	15,075	17,848	21,209	22,769	25,025	24,998	27,276
Fully diluted	15,075	17,848	21,209	30,428	30,502	30,499	32,648
Other Financial Data:							
Research and development, gross	$ 5,584	$ 9,238	$14,698	$14,877	$ 19,123	$ 8,962	$13,256
Research and development, funding	3,397	3,318	4,015	2,105	12,192	5,729	7,981
Research and development, net	$ 2,187	$ 5,920	$10,683	$12,772	$ 6,931	$ 3,233	$ 5,275
Amounts under U.S. GAAP							
Net earnings (loss) from continuing operations	$(2,406)	$ (6,468)	$ (6,938)	$ 6,081	$ 10,358	$ 4,394	$ 7,631
Net earnings (loss)	$(2,469)	$ (5,231)	$ (6,938)	$ 6,081	$ 10,358	$ 4,394	$ 7,631
Basic earnings (loss) per share from continuing operations	$ (0.16)	$ (0.36)	$ (0.33)	$ 0.27	$ 0.41	$ 0.18	$ 0.28
Diluted earnings (loss) per share from continuing operations	$ (0.16)	$ (0.36)	$ (0.33)	$ 0.25	$ 0.38	$ 0.16	$ 0.27
Basic earnings (loss) per share	$ (0.16)	$ (0.29)	$ (0.33)	$ 0.27	$ 0.41	$ 0.18	$ 0.28
Diluted earnings (loss) per share	$ (0.16)	$ (0.29)	$ (0.33)	$ 0.25	$ 0.38	$ 0.16	$ 0.27
Shares used in per share calculation:							
Basic	15,075	17,848	21,209	22,769	25,025	24,998	27,276
Diluted	15,075	17,848	21,209	24,191	27,036	27,424	28,067

Balance Sheet Data:	As at September 30,					As at March 31,	
	1994	1995	1996	1997	1998	1998	1999
						(unaudited)	
	(in thousands)						
Amounts under Canadian GAAP							
Cash and cash equivalents	$ 3,283	$10,102	$10,937	$30,652	$ 16,224	$22,563	$ 37,150
Working capital	4,880	2,249	13,243	40,683	34,562	43,441	59,039
Total assets	16,974	39,524	59,592	94,464	102,118	96,298	136,890
Long-term debt, excluding current portion	2,807	6,405	7,849	6,956	6,660	6,956	6,512
Shareholders' equity	6,009	7,086	20,282	50,475	62,048	55,704	89,742
Amounts under U.S. GAAP							
Cash and cash equivalents	$ 3,283	$10,102	$10,937	$30,652	$ 16,224	$22,563	$ 37,150
Working capital	4,821	2,132	12,931	40,215	34,562	43,441	59,039
Total assets	17,124	39,707	60,080	95,196	102,118	96,298	136,890
Long-term debt, excluding current portion	2,807	6,405	7,849	6,956	6,660	6,956	6,512
Shareholders' equity	6,100	7,269	20,770	51,207	62,048	55,704	89,742

The following information should be noted in connection with the selected consolidated financial data presented above:

- ''Other income (expense)'' includes foreign exchange gain and loss, interest income and interest expense; and
- the ''discontinued operations'' referred to in the table are the operations of our data storage business, which we sold in 1994.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a leading developer, manufacturer and distributor of comprehensive digital solutions that automate the prepress phase of commercial printing. Our solutions enable commercial printers to use their installed base of printing presses more profitably while improving their ability to meet customer demands for tighter deadlines, better and more consistent color quality, shorter print runs and greater customization of print jobs.

Revenue. Our revenue is derived from sales of our computer-to-plate products to direct customers and distributors and from fees for service of equipment. Product revenue is derived from the sale of equipment and related software, and includes revenue earned from installation, training and warranty maintenance services. Product revenue from sales made directly to end customers is recognized when title passes to the customer or upon customer acceptance. Customer acceptance is used as the criterion for revenue recognition when the product sold does not have an established sales history to allow management to reasonably estimate returns. Product revenue from sales to distributors is recognized upon shipment to the distributor. The joint venture with Heidelberg is considered to be a distributor for purposes of revenue recognition.

Service revenue is derived from customer support agreements entered into in connection with product sales and renewals. A substantial majority of our customers contract for service. Service revenue is recorded as deferred revenue when billed to the customer and is recognized ratably over the term of the support agreement, which generally is three to twelve months. Creo provides service support on non-joint venture products on a worldwide basis, and on joint venture products only in countries who are signatories to the North American Free Trade Agreement. Creo does not derive any service revenue through the joint venture.

Joint Venture. Our joint venture with Heidelberg commenced operations on October 1, 1997. We each have a 50% economic interest in the joint venture which was established to develop, manufacture, market and distribute designated computer-to-plate products and related workflow products and consumables. The joint venture is co-managed and does not own any material assets, maintain any employees or operate any manufacturing or other operating facilities. We share equally revenue and expenses related to the computer-to-plate products, workflow products and consumables designated as part of the joint venture and generally provide goods and services for the joint venture at cost.

Under Canadian GAAP, operations of the joint venture are accounted for using proportionate consolidation, which requires that we include in our consolidated statement of operations one-half of the related revenue and expenses of the joint venture. This treatment differs from the equity method required by U.S. GAAP, under which we would be required to record one-half of the net earnings of the joint venture as a single line item on our consolidated statement of operations.

Unit sales of computer-to-plate products have increased since the commencement of the joint venture; however, our product revenue growth rate has decreased compared to prior periods. This decrease is due to the transfer to the joint venture of the right to sell some of our products. As a result, using proportionate consolidation, Creo now records only one-half of the revenues resulting from the sale of joint venture products. If the joint venture is successful, Creo expects to realize a number of benefits, including access to Heidelberg's worldwide customer base and marketing and distribution network, access to its service and customer support organization outside North America, product development funding, and improved cost efficiencies for the manufacture of some products. Creo believes that the realization of these benefits over time will result in increased market penetration for its computer-to-plate products and corresponding improvements in Creo's product revenue growth.

Creo's business and results of operation are dependent upon the success of the joint venture with Heidelberg. Our share of joint venture revenue accounted for 27.6% of our total revenue for the fiscal year ended September 30, 1998 and 34.8% of our total revenue for the six months ended March 31, 1999. If our joint venture were to terminate or fail to achieve the benefits that we expect to occur, our business, results of

operations and financial condition would be materially adversely affected. See ''Risk Factors—If our joint venture with Heidelberg is unsuccessful or is terminated, our operating costs will increase if we are not able to rechannel our resources quickly enough, and our revenues will also decline.''

Research and Development. Since our inception, we have invested heavily in research and development. This investment has been subsidized in part by funding received from plate and film suppliers, press manufacturers and our customers in connection with specific product development initiatives undertaken by us at their request. We have also received funding from the Canadian government through investment tax credits. The Canadian government funds up to 20% of our investment in research and development carried out in Canada as investment tax credits. These credits are recorded as a reduction in research and development expense, and are available to reduce income taxes payable. The research and development funding received from third parties has resulted in a significant reduction in our total expenditures for research and development activities. Our joint venture with Heidelberg in particular has been an important source of this funding. For the 18 months ended March 31, 1999, Heidelberg has provided $7.3 million in research and development funding, representing 22.4% of our gross research and development expenses for the period.

Sales and Marketing. Sales and marketing expenses are primarily attributable to the salaries, commissions, travel costs, office expenses and support staff associated with our sales staff. In addition, the costs of trade shows, advertising and marketing are also included in sales and marketing expenses. Due to the growth of our business primarily in North America and Europe, we intend to continue to invest in the expansion of our sales force. Because of the competitive nature of our business, we do not expect our sales and marketing expenses to decrease as a percentage of our revenue.

Foreign Exchange. Substantially all of our revenue is received in U.S. dollars. A significant portion of our expenses are incurred in Canadian dollars and Belgian francs. As a result, appreciation in the value of these currencies relative to the U.S. dollar could adversely affect our operating results. Foreign currency translation gains and losses arising from normal business operations are credited to or charged against other income for the period incurred. To date, we have not done any currency hedging to minimize the effect of these gains or losses. As a result, fluctuations in the value of Canadian dollars and Belgian francs relative to U.S. dollars have caused and will continue to cause currency translation gains and losses.

Our consolidated financial statements are prepared in accordance with Canadian GAAP. These principles conform in all material respects with U.S. GAAP, except as disclosed in note 14 to the consolidated financial statements.

Results of Operations

The following table summarizes historical results of operations as a percentage of revenue for the periods shown.

Amounts under Canadian GAAP	Year Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
As a Percentage of Revenue:					
Revenue:					
Product revenue	96.4%	95.9%	89.0%	89.8%	83.1%
Service revenue	3.6	4.1	11.0	10.2	16.9
Total revenue	100.0	100.0	100.0	100.0	100.0
Cost of sales	66.3	56.1	55.3	56.0	52.1
Gross margin	33.7	43.9	44.7	44.0	47.9
Research and development, net	22.3	13.4	5.4	5.5	6.8
Sales and marketing	18.3	15.3	17.4	17.0	18.4
General and administration	8.5	6.5	6.9	6.6	5.1
Earnings (loss) from operations	(15.4)	8.7	15.0	14.9	17.6
Other income (expense)	0.1	0.0	(1.2)	(1.3)	(0.8)
Earnings (loss) before income taxes	(15.3)	8.7	13.8	13.6	16.8
Income tax expense (recovery)	(0.2)	2.6	5.2	4.9	7.0
Net earnings (loss)	(15.1)%	6.1%	8.6%	8.7%	9.8%
Research and Development Data:					
Research and development, gross	30.7%	15.6%	14.8%	15.1%	17.0%
Research and development, net	22.3	13.4	5.4	5.5	6.8

Six months ended March 31, 1999 compared to six months ended March 31, 1998

Revenue. Total revenue increased 31.7% to $78.1 million for the six months ended March 31, 1999 from $59.2 million for the six months ended March 31, 1998.

Product revenue increased 21.9% to $64.9 million for the six months ended March 31, 1999 from $53.2 million for the six months ended March 31, 1998. This increase in product revenue was due to higher unit sales, at relatively constant prices, of computer-to-plate products both by Creo through direct sales and by the joint venture. Product revenue from direct sales increased 2.4% from $37.8 million for the six months ended March 31, 1998 from $36.9 million for the six months ended March 31, 1999. Product revenue from the joint venture increased 66.1% to $27.1 million for the six months ended March 31, 1999 from $16.3 million for the six months ended March 31, 1998. This increase was primarily due to increased sales activity on the part of Heidelberg.

Service revenue increased 118.3% to $13.2 million for the six months ended March 31, 1999 from $6.0 million for the six months ended March 31, 1998. This increase in service revenue was due to fees generated from additional customer support agreements entered into in connection with new product sales.

Revenue from our North American customers accounted for $52.4 million, or 67.1% of total revenue for the six months ended March 31, 1999, compared to $36.5 million, or 61.7% of total revenue, for the six months ended March 31, 1998. Revenue from our European customers accounted for $22.1 million, or 28.4% of total revenue the six months ended March 31, 1999, compared to $15.5 million, or 26.2% of total revenue, for the six months ended March 31, 1998. Revenue from our Japanese customers accounted for $1.1 million, or 1.4% of total revenue, for the six months ended March 31, 1999, compared to $2.8 million, or 4.7% of total revenue,

for the six months ended March 31, 1998. The decrease in Japanese sales is primarily due to depressed economic conditions in the region.

Cost of Sales. Cost of sales consists of the cost of materials, salaries, benefits and related overhead costs associated with the generation of revenue, and includes costs of sales attributable to the joint venture. Cost of sales increased 22.6% to $40.7 million for the six months ended March 31, 1999 from $33.2 million for the six months ended March 31, 1998. This increase was primarily due to a 25.5% increase in the number of production and customer service staff as well as increased subassembly and component costs and overhead expenses associated with the increase in both our product sales and our installed customer base. Cost of sales decreased as a percentage of total revenue to 52.1% for the six months ended March 31, 1999 from 56.0% for the six months ended March 31, 1998. This decrease was primarily due to lower per-unit labor, subassembly and component costs, increased plant capacity utilization, increased product reliability and increased efficiencies in our service department.

Research and Development. Gross research and development expenses consist of salaries, benefits and related overhead costs associated with personnel engaged in research and product development activities, and include research and development costs attributable to the joint venture. Gross research and development expenses increased 47.9% to $13.3 million for the six months ended March 31, 1999 from $9.0 million for the six months ended March 31, 1998. This increase was primarily due to a 46.0% increase in the number of research and development personnel. Gross research and development expenses increased as a percentage of total revenue to 17.0% for the six months ended March 31, 1999 from 15.1% for the six months ended March 31, 1998.

Outside funding of our research and product development activities increased 39.3% to $8.0 million for the six months ended March 31, 1999 from $5.7 million for the six months ended March 31, 1998. The $8.0 million in outside funding included $3.2 million received from the joint venture, $2.7 million received from media suppliers, press manufacturers and our customers, and $2.1 million in investment tax credits. The $5.7 million in outside funding received for the six months ended March 31, 1998 included $1.3 million received from the joint venture, $2.7 million received from other third parties, and $1.7 million in investment tax credits.

As a result of these factors affecting gross research and development expenses and research and development funding, net research and development expenses, which represent gross research and development expenses less outside funding, increased 63.2% to $5.3 million for the six months ended March 31, 1999 from $3.2 million for the six months ended March 31, 1998. Net research and development expenses increased as a percentage of total revenue to 6.8% for the six months ended March 31, 1999 from 5.5% for the six months ended March 31, 1998.

Sales and Marketing. Sales and marketing expenses consist of salaries, commissions, benefits and related overhead costs associated with sales personnel, and costs associated with marketing and promotional activities. Sales and marketing expenses increased 42.5% to $14.4 million, or 18.4% of total revenue, for the six months ended March 31, 1999 from $10.1 million, or 17.0% of total revenue, for the six months ended March 31, 1998. This increase was primarily due to a 49.1% increase in the number of sales and marketing staff in North America and Europe to support the sale of non-joint venture products.

General and Administration. General and administration expenses consist of salaries, benefits and related overhead costs associated with management, accounting, legal and human resources personnel, as well as professional fees. General and administration expenses increased 2.7% to $4.0 million, or 5.1% of total revenue, for the six months ended March 31, 1999 from $3.9 million, or 6.6% of total revenue, for the six months ended March 31, 1998. This increase was primarily due to the growth of our business.

Income Taxes. Income tax expense increased to $5.5 million for the six months ended March 31, 1999 from $2.9 million for the six months ended March 31, 1998. This increase was primarily due to the increase in our profitability. Our effective tax rate of 41.8% for the six months ended March 31, 1999 was below the statutory rate of 45.6% due to Canadian manufacturing and processing tax credits and the fact that a portion of

our profits were earned in foreign jurisdictions with tax rates lower than those in Canada. See note 9 to our consolidated financial statements.

Year ended September 30, 1998 compared to year ended September 30, 1997

The joint venture with Heidelberg commenced operations on October 1, 1997. During the joint venture's first full year of operations our revenue growth decreased compared to prior periods, even though unit sales of our computer-to-plate products increased. This decrease was expected because prior to the start-up of the joint venture, all of the revenue from sales by us of the computer-to-plate products now sold by the joint venture was recorded in our income statement, whereas now only one-half of the revenue arising from sales through the joint venture is for our account. The following comparison of results of operations for the years ended September 30, 1998 and 1997 should accordingly be read with this development in mind.

Revenue. Total revenue increased 34.8% to $128.8 million for the year ended September 30, 1998 from $95.6 million for the year ended September 30, 1997.

Product revenue increased 25.1% to $114.7 million for the year ended September 30, 1998 from $91.7 million for the year ended September 30, 1997. This increase was due to higher unit sales of computer-to-plate products by us through direct sales and by the joint venture. Product revenue from the joint venture represented 31.0% of our total product revenue for the year ended September 30, 1998.

Service revenue increased 262.7% to $14.2 million for the year ended September 30, 1998 from $3.9 million for the year ended September 30, 1997. As substantially all of our customers contract for service support, this increase in service revenue was due to the substantial increase in the installed base of our equipment.

Revenue from our North American customers accounted for $75.1 million, or 58.3% of total revenue, for the year ended September 30, 1998, compared to $65.6 million, or 68.6% of total revenue, for the year ended September 30, 1997. Revenue from our European customers accounted for $41.7 million, or 32.3% of total revenue, for the year ended September 30, 1998, compared to $15.7 million, or 16.4% of total revenue, for the year ended September 30, 1997. The decrease in North American sales as a percentage of total sales and the corresponding increase in European sales are primarily due to the commencement of operations of the joint venture, which recorded 34.6% of its sales during the period in Europe. Revenue from our Japanese customers accounted for $5.3 million, or 4.1% of total revenue, for the year ended September 30, 1998, compared to $9.9 million, or 10.4% of total revenue, for the year ended September 30, 1997. The decrease in Japanese sales is primarily due to depressed economic conditions in the region.

Cost of Sales. Cost of sales increased 32.8% to $71.2 million for the year ended September 30, 1998 from $53.6 million for the year ended September 30, 1997. This increase was primarily due to a 28.5% increase in the number of production and customer service staff as well as increased subassembly and component costs and overhead expenses associated with the increase in both our product sales and our installed customer base. In 1997, cost of sales was increased by $1.1 million for retrofit charges. In 1998, retrofit liability had no impact on cost of sales because the increase in the installed base has been offset by increased product reliability. Cost of sales decreased slightly as a percentage of total revenue to 55.3% for the year ended September 30, 1998 from 56.1% for the year ended September 30, 1997. This decrease was primarily due to lower per-unit labor, subassembly and component costs, and increased plant capacity utilization, and increased product reliabilty offset by increased costs of service related to the hiring of additional service personnel.

Research and Development. Gross research and development expenses increased 28.5% to $19.1 million for the year ended September 30, 1998 from $14.9 million for the year ended September 30, 1997. This increase was primarily due to a 35.8% increase in the number of research and development personnel. Gross research and development expenses decreased as a percentage of total revenue to 14.8% for the year ended September 30, 1998 from 15.6% for the year ended September 30, 1997. This decrease was due to the growth in our revenue base.

Outside funding of our research and product development activities increased 479.2% to $12.2 million for the year ended September 30, 1998 from $2.1 million for the year ended September 30, 1997. The

$12.2 million in outside funding received during the year ended September 30, 1998 included $4.4 million received from media suppliers and press manufacturers, $4.1 million received from the joint venture and $3.7 million in investment tax credits. The $2.1 million in third-party funding received during the year ended September 30, 1997 included $1.4 million received from outside parties and $ 0.7 million received in investment tax credits.

As a result of these factors affecting gross research expenses and development and research and development funding, net research and development expenses decreased 45.7% to $6.9 million for the year ended September 30, 1998 from $12.8 million for the year ended September 30, 1997. Net research and development expenses decreased as a percentage of total revenue to 5.4% for the year ended September 30, 1998 from 13.4% for the year ended September 30, 1997.

Sales and Marketing. Sales and marketing expenses increased 53.3% to $22.4 million, or 17.4% of total revenue for the year ended September 30, 1998 from $14.6 million, or 15.3% of total revenue for the year ended September 30, 1997. This increase was primarily due to a 44.7% increase in the number of sales and marketing staff in North America and Europe to support the expansion of our operations, including the start-up of the joint venture.

General and Administration. General and administration expenses increased 42.5% to $8.9 million, or 6.9% of total revenue for the year ended September 30, 1998 from $6.3 million, or 6.5% of total revenue for the year ended September 30, 1997. This increase was primarily due to the growth of our business and the addition of new facilities at 4225 Kincaid Street in Burnaby, Canada. These facilities were acquired to allow for the future expansion of our thermal head development and manufacturing capacity.

Income Taxes. Income tax expense increased to $6.7 million for the year ended September 30, 1998 from $2.5 million for the year ended September 30, 1997. This increase was primarily due to the increase in our profitability. Our effective tax rate of 37.6% for the year ended September 30, 1998 was below the statutory rate of 45.6% due to Canadian manufacturing and processing tax credits and the fact that a portion of our profits were earned in foreign jurisdictions with tax rates lower than those of Canada. See note 9 to our consolidated financial statements.

Year ended September 30, 1997 compared to year ended September 30, 1996

Revenue. Total revenue increased 99.4% to $95.6 million for the year ended September 30, 1997 from $47.9 million for the year ended September 30, 1996.

Product revenue increased 98.3% to $91.7 million for the year ended September 30, 1997 from $46.2 million for the year ended September 30, 1996. This increase was due to higher unit sales of our computer-to-plate products through our direct sales force.

Service revenue increased 126.5% to $3.9 million for the year ended September 30, 1997 from $1.7 million for the year ended September 30, 1996. This increase was due to fees generated from additional customer support agreements entered into in connection with new product sales.

Revenue from our North American customers accounted for $65.6 million, or 68.6% of total revenue, for the year ended September 30, 1997, compared to $34.5 million, or 72.0% of total revenue, for the year ended September 30, 1996. Revenue from our European customers accounted for $15.7 million, or 16.4% of total revenue, for the year ended September 30, 1997, compared to $4.5 million, or 9.3% of total revenue, for the year ended September 30, 1996. Revenue from our Japanese customers accounted for $9.9 million, or 10.4% of total revenue, for the year ended September 30, 1997, compared to $7.0 million, or 14.6% of total revenue, for the year ended September 30, 1996.

Cost of Sales. Cost of sales increased 68.8% to $53.6 million for the year ended September 30, 1997 from $31.8 million for the year ended September 30, 1996. This increase was primarily due to a 45.8% increase in

the number of production and customer service staff as well as increased subassembly and component costs and overhead expenses associated with the increase in both our product sales and our installed customer base. Cost of sales decreased as a percentage of total revenue to 56.1% for the year ended September 30, 1997 from 66.3% for the year ended September 30, 1996. This decrease was primarily due to product mix, improvements in manufacturing efficiencies, lower per-unit labor, subassembly and component costs, and increased plant capacity utilization.

Research and Development. Gross research and development expenses increased 1.2% to $14.9 million for the year ended September 30, 1997 from $14.7 million for the year ended September 30, 1996. This increase was primarily due to a 29.0% increase in the number of research and development staff, offset by decreased prototyping material costs as our research and development focus shifted from new product development to product enhancement. Gross research and development expenses decreased as a percentage of total revenue to 15.6% for the year ended September 30, 1997 from 30.7% for the year ended September 30, 1996. This decrease was primarily due to the growth in our revenue base.

Outside funding of our research and product development activities decreased 47.6% to $2.1 million for the year ended September 30, 1997 from $4.0 million for the year ended September 30, 1996. The $2.1 million in outside funding received during the year ended September 30, 1997 included $0.7 million in investment tax credits and $1.4 million received from outside parties.

As a result of these factors affecting gross research and development expenses and research and development funding, net research and development expenses increased 19.6% to $12.8 million for the year ended September 30, 1997 from $10.7 million for the year ended September 30, 1996. Net research and development expenses decreased as a percentage of total revenue to 13.4% for the year ended September 30, 1997 from 22.3% for the year ended September 30, 1996.

Sales and Marketing. Sales and marketing expenses increased 66.9% to $14.6 million for the year ended September 30, 1997 from $8.8 million for the year ended September 30, 1996. This increase was primarily due to the 55.1% increase in the number of sales and marketing personnel in North America and Europe. Sales and marketing expenses decreased as a percentage of total revenue to 15.3% for the year ended September 30, 1997 from 18.3% for the year ended September 30, 1996. This decrease was primarily due to increased productivity among sales personnel.

General and Administration. General and administration expenses increased 53.3% to $6.3 million for the year ended September 30, 1997 from $4.1 million for the year ended September 30, 1996. This increase was primarily due to the hiring of additional personnel. General and administration expenses decreased as a percentage of total revenues to 6.5% for the year ended September 30, 1997 from 8.5% for the year ended September 30, 1996. This decrease was primarily due to the growth in our revenue base.

Income Taxes. Income tax expense increased to $2.5 million for the year ended September 30, 1997 from a recovery of $0.1 million for the year ended September 30, 1996. This increase was primarily due to the increase in our profitability. Our effective tax rate of 30.0% for the year ended September 30, 1997 was below the statutory rate of 45.6% due to the availability of loss carryforwards, Canadian manufacturing and processing tax credits and the fact that a portion of our profits were earned in foreign jurisdictions with tax rates lower than those of Canada. See note 9 to our consolidated financial statements.

Quarterly Results of Operations

The following tables summarize selected quarterly financial information for our ten most recent fiscal quarters, as well as the percentage of our revenue represented by each item. This information is unaudited, but reflects all adjustments of a normal, recurring nature which are, in the opinion of our management, necessary to present a fair statement of our financial position and results of operations for the periods presented. Quarter-to-quarter comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

	Three Months Ended									
	Dec 31, 1996	Mar 31, 1997	Jun 30, 1997	Sep 30, 1997	Dec 31, 1997	Mar 31, 1998	Jun 30, 1998	Sep 30, 1998	Dec 31, 1998	Mar 31, 1999
	(unaudited) (in thousands)									
Amounts under Canadian GAAP										
Revenue:										
Product revenue	$13,557	$19,355	$26,637	$32,120	$22,557	$30,663	$30,835	$30,597	$31,065	$33,829
Service revenue	837	897	1,066	1,114	2,354	3,675	3,037	5,130	5,484	7,679
Total revenue	14,394	20,252	27,703	33,234	24,911	34,338	33,872	35,727	36,549	41,508
Cost of sales	10,258	11,734	14,073	17,569	14,575	18,614	18,325	19,703	19,471	21,217
Gross profit	4,136	8,518	13,630	15,665	10,336	15,724	15,547	16,024	17,078	20,291
Research and development, net	1,505	3,146	3,575	4,546	2,098	1,135	1,611	2,087	2,033	3,242
Sales and marketing	2,026	2,936	4,531	5,126	4,532	5,569	5,723	6,593	6,785	7,611
General and administration	1,175	1,248	1,493	2,355	1,680	2,199	2,189	2,869	2,035	1,948
Earnings (loss) from operations	(570)	1,188	4,031	3,638	2,026	6,821	6,024	4,475	6,225	7,490
Other income (expense)	365	(438)	(158)	279	(504)	(295)	(278)	(503)	(332)	(261)
Earnings (loss) before income taxes	(205)	750	3,873	3,917	1,522	6,526	5,746	3,972	5,893	7,229
Income tax expense (recovery)	(16)	158	1,243	1,113	552	2,370	2,219	1,535	2,523	2,968
Net earnings (loss)	$ (189)	$ 592	$ 2,630	$ 2,804	$ 970	$ 4,156	$ 3,527	$ 2,437	$ 3,370	$ 4,261

	Three Months Ended									
	Dec 31, 1996	Mar 31, 1997	Jun 30, 1997	Sep 30, 1997	Dec 31, 1997	Mar 31, 1998	Jun 30, 1998	Sep 30, 1998	Dec 31, 1998	Mar 31, 1999
As a Percentage of Revenue:										
Revenue:										
Product revenue	94.2 %	95.6%	96.2%	96.6%	90.6%	89.3%	91.0%	85.6%	85.0%	81.5%
Service revenue	5.8	4.4	3.8	3.4	9.4	10.7	9.0	14.4	15.0	18.5
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost of sales	71.3	57.9	50.8	52.9	58.5	54.2	54.1	55.1	53.3	51.1
Gross margin	28.7	42.1	49.2	47.1	41.5	45.8	45.9	44.9	46.7	48.9
Research and development, net	10.4	15.5	12.9	13.7	8.4	3.3	4.7	5.8	5.5	7.8
Sales and marketing	14.1	14.5	16.3	15.4	18.2	16.2	16.9	18.5	18.6	18.3
General and administration	8.1	6.2	5.4	7.1	6.8	6.4	6.5	8.1	5.6	4.7
Earnings (loss) from operations	(3.9)	5.9	14.6	10.9	8.1	19.9	17.8	12.5	17.0	18.1
Other income (expense)	2.5	(2.2)	(0.6)	0.8	(2.0)	(0.9)	(0.8)	(1.4)	(0.9)	(0.6)
Earnings (loss) before income taxes	(1.4)	3.7	14.0	11.7	6.1	19.0	17.0	11.1	16.1	17.5
Income tax expense (recovery)	(0.1)	0.8	4.5	3.3	2.2	6.9	6.6	4.3	6.9	7.2
Net earnings (loss)	(1.3)%	2.9%	9.5%	8.4%	3.9%	12.1%	10.4%	6.8%	9.2%	10.3%

Revenue. Total revenue increased in each quarter during the period October 1, 1996 to September 30, 1997. The increases during this period were primarily due to higher unit sales of our computer-to-plate products. Product revenue for the three months ended September 30, 1997 included $3.1 million in sales of computer-to-plate output devices to Heidelberg to install in their showrooms in anticipation of the launch of the joint venture.

The joint venture with Heidelberg commenced operations on October 1, 1997. The decrease in product revenue from $32.1 million for the three months ended September 30, 1997 to $22.6 million for the three months ended December 31, 1997 was due to the revenue sharing arrangements implemented in connection with the joint venture, as well as a delay in the shipment of product due to a design change required on the thermal head.

Product revenue for the three months ended March 31, 1998 returned to approximately the level achieved during the three months ended September 30, 1997, excluding the $3.1 million in showroom sales to Heidelberg during the prior period. Product revenue remained consistent during the quarters ended June 30, 1998 and September 30, 1998, and increased during the quarters ended December 31, 1998 and March 31, 1999 to $31.1 million and $33.8 million, respectively. The increase in product revenue for the six months ended March 31, 1999 reflects the increased market penetration for our computer-to-plate products made possible by Heidelberg's worldwide marketing and distribution network.

Service revenue has generally increased at a steady rate over the ten quarters ended March 31, 1999, reflecting an increase in fees generated from customer support agreements. A substantial majority of our customers contract for service.

Cost of Sales. Cost of sales has generally increased over the ten quarters ended March 31, 1999, reflecting the growth in our computer-to-plate product sales. We expect that cost of sales will continue to increase as sales of our computer-to-plate products grow.

Research and Development. The commencement of operations of the joint venture on October 1, 1997 resulted in a substantial decrease in net research and development expense in each of the six quarters ended prior to March 31, 1999 compared to the three months ended September 30, 1997. This decrease reflects the funding contribution of Heidelberg to research and development initiatives undertaken by us in connection with computer-to-plate products sold by the joint venture. The increase in net research and development expense in each of the four quarters ended March 31, 1999 reflects the hiring of additional research and development personnel. We expect that net research and development expenses will continue to increase as we introduce new products and enhance existing equipment and software.

Sales and Marketing. Sales and marketing expenses increased over the ten quarters, reflecting the growth in our computer-to-plate product sales. We expect that our sales and marketing expenses will continue to increase as sales of our computer-to-plate products grow.

General and Administration. General and administrative expenses increased during the eight quarters ended September 30, 1998 as we expanded our infrastructure to accommodate the growth in our computer-to-plate product sales. General and administration expenses decreased during the two quarters ended March 31, 1999, as the cost of our internal software system had been fully amortized. We expect that general and administration expenses will continue to increase as sales of our computer-to-plate products grow.

Liquidity and Capital Resources

Since we commercialized our first computer-to-plate product in October 1994, we have financed our operations through a combination of private sales of equity securities and cash generated by operations. As at March 31, 1999, we had $59.0 million in working capital and $37.2 million in cash and short term deposits. Our operations used cash of $0.7 million for the year ended September 30, 1997, and generated cash of $11.6 million for the year ended September 30, 1998 and $7.3 million for the six months ended March 31, 1999.

Our inventory and accounts payable have remained relatively flat from September 30, 1997 to September 30, 1998, because the increase in production of computer-to-plate systems during this period was done by Heidelberg through the joint venture. The retrofit liability included in accounts payable increased to $3.2 million as at September 30, 1997 from $2.1 million as at September 30, 1996 due to an increased installed base of products. Since September 30, 1997, the retrofit liability has not changed significantly as the impact of the increased installed base has been offset by increased product reliability. Inventory increased 7.6% during the six months ended March 31, 1999 due to the increase in the volume of computer-to-plate products that we produced. Our accounts receivable have increased from September 30, 1997 to March 31, 1999 due to the increase in our sales volumes. Our days receivables outstanding has decreased slightly during the period due to an increase in our collection efforts. Accounts payable decreased during the six months ended March 31, 1999 due primarily to a reduction of $548,000 in retrofit liability resulting from increased product reliability.

As at March 31, 1999, we had deferred revenues and deposits of $20.8 million, and total borrowings of $6.8 million which are secured by a first mortgage on our Canadian office and production facilities. We also have $15.0 million available through a credit facility with a Canadian chartered bank. The credit facility is repayable on demand and bears interest at LIBOR plus 1%. As at March 31, 1999, there were no borrowings outstanding under the credit facility.

Our net capital expenditures for the year ended September 30, 1998 were $23.5 million, compared to $4.2 million for the year ended September 30, 1997. Our net capital expenditures for the six months ended March 31, 1999 were $5.8 million, compared to $5.6 million during the six months ended March 31, 1998. Our capital expenditures over the past eighteen months have related primarily to the purchase of land for engineering, production and service support facilities. Total capital expenditures in 1999 are expected to be less than $14.0 million. Of this amount, $5.8 million was spent during the six months ended March 31, 1999. We have committed $2.3 million in 1999 for the expansion of our thermal head development and manufacturing facilities located at 4225 Kincaid Street in Burnaby, British Columbia during the last six months of 1999. In addition, we expect to spend up to $5.9 million on other capital expenditures during the last six months of 1999, but no specific expenditures have been committed.

In 1994, we formed Creo Ltd. under the laws of Israel to carry on research and development work relating to our imaging technologies. In 1997, Creo Ltd. began to focus on developing applications of our technologies to the printed circuit board industry. In 1998, our Board of Directors decided that we should focus our energies and resources on our core graphic arts business. As a result, additional shares of Creo Ltd. were sold to outside investors, leaving us with a small minority interest. We also have an option to re-acquire up to an additional 5,280,000 shares, representing an 88% interest in Creo Ltd. This option is exercisable at any time up to March 12, 2000, at a price of $2.00 per share, plus a premium ranging from 10% to a maximum of 28% per annum, depending upon when the option is exercised. We have not currently decided whether to exercise this option. We are not represented on Creo Ltd.'s board of directors, and have no role in its management.

We believe that the net proceeds from the sale of the common shares in this offering, together with existing cash balances, cash generated by our operations and funds available under our credit facility will be sufficient to meet our anticipated working capital and capital expenditure requirements for the next two years.

Year 2000 Readiness Disclosure

State of Readiness. We initiated a Year 2000 compliance program for our products in the summer of 1998. The program focused on two areas:

- the components of Creo products that are provided by sub-contractors; and
- the components of Creo products that we produce ourselves.

We have completed our tests on the product components that could be affected by Year 2000 issues and, based on our tests, we believe that all of these components are Year 2000 compliant. Although we have

received written warranties or other representations from substantially all of our sub-contractors that their products are Year 2000 compliant, we have no other Year 2000 related contractual commitments. Moreover, if we were to make a warranty claim against one of our sub-contractors because of a malfunction related to the Year 2000, there can be no assurance that the subcontractor would actually pay our warranty claim.

We use a number of computer software programs and operating systems across our entire organization, including applications used in financial business systems and various administrative functions. At this time, we have completed the process of identifying and remediating information technology systems that were not Year 2000 compliant. As a result, we believe that none of our information technology systems currently contain source code that is unable to appropriately interpret Year 2000 data.

Despite our Year 2000 compliance program, there is a possibility that one or more of our products is not Year 2000 compliant. In the event of a failure of one of our products at a customer site, our normal protocols for customer support would be followed.

Heidelberg believes that the products it produces for our joint venture are Year 2000 compliant apart from a few exceptions that are currently being addressed.

Costs of Addressing Year 2000 Issues. Given the extent of our systems' compliance, we do not expect Year 2000 compliance costs to have any material adverse impact on our business. The total costs for the Year 2000 compliance assessment and remediation undertaken by us have not been significant and are included in general and administrative expenses.

Risks of Year 2000 Issues. In light of our assessment and remediation efforts to date, we believe that any residual Year 2000 risk is limited to non-critical business applications and support hardware. We have no assurance that the outside manufacturers who supply components to us will be Year 2000 compliant with their internal systems. A reduction in the supply of product from these suppliers could have a material adverse effect on our business.

Contingency Plans. The most likely worst-case scenario that we may encounter as a result of a Year 2000 issue is a product failure at one or more of our customer sites coupled with a parts shortage resulting from one or more of our suppliers failing to be Year 2000 compliant. To address the possibility of a product failure at one or more of our customer sites as a result of a Year 2000 issue, we will have additional customer service and support personnel on hand in our Response Center during the beginning of the Year 2000 to handle any unusual increase in customer requirements. To address the possibility of a parts shortage resulting from one or more of our suppliers failing to be Year 2000 compliant, Creo has identified other suppliers that could rapidly provide an alternative source of component parts.

Impact of Recently Issued Accounting Standards

In addition to the U.S. GAAP differences referred to in note 14 to our consolidated financial statements, the Financial Accounting Standards (FAS) Board in the United States has issued FAS 133, ''Accounting for Derivative Instruments and for Hedging Activities.'' FAS 133 provides comprehensive and consistent standards for the recognition and measurement of derivatives and hedging activities. Generally, FAS 133 requires all derivatives to be recorded on the balance sheet at fair value and establishes new accounting requirements for different types of hedging activities. FAS 133 is effective for fiscal years beginning after June 15, 1999.

To date, we have not engaged in any hedging activities other than the interest rate swap described below. Our management continues to assess the implications of FAS 133, but does not believe its adoption will materially affect our historical results of operations or shareholders' equity when reconciled to U.S. GAAP as set out in our consolidated financial statements.

Quantitative and Qualitative Disclosures about Market Risk

We have used an interest rate swap to manage our risk with regards to interest rate changes. As a result, floating rate debt has been converted to fixed rate debt. The swap results in our paying an interest rate of 8.05% and receiving an interest rate of LIBOR + 1.5% for the duration of the long-term debt. The fair value of the interest rate swap as at September 30, 1998 is $341,000 in favor of the counterparty.

We have not engaged in any currency hedging to minimize the effect of exchange gains or losses. We are exposed to foreign currency fluctuations on our monetary asset and liability balances denominated in Canadian dollars and Belgian francs.

The table below presents the principal cash flows that exist by maturity date of our long-term debt and details of our interest rate swap as at September 30, 1998.

	1999	2000	2001	2002	Total
Fixed rate U.S.$ debt	$ 647	—	—	—	$ 647
Average rate	0%	—	—	—	0%
Floating rate U.S.$ debt	$ 296	$ 296	$ 296	$6,068	$6,956
Average rate	7.2%	7.2%	7.2%	7.2%	7.2%
Interest Rate Swaps					
U.S.$ pay fixed—U.S.$ receive variable	$ 296	$ 296	$ 296	$6,068	$6,956
Average pay rate	6.6%	6.6%	6.6%	6.6%	6.6%
Average receive rate	5.7%	5.7%	5.7%	5.7%	5.7%

BUSINESS

Overview

Creo is a leading developer, manufacturer and distributor of comprehensive ''computer-to-plate'' digital solutions that automate the prepress phase of commercial printing. ''Prepress'' refers to the process by which master printing plates are created prior to actual printing. Our computer-to-plate technology transfers digitized text, graphic images and line artwork from desktop publishing computer systems directly onto printing plates, eliminating labor-intensive, complex and costly preparatory steps required by the conventional prepress process. We offer a comprehensive line of precision imaging equipment, including scanners, proofing devices and output devices, as well as workflow management software. Our systems are based on our patented and proprietary thermal imaging and related technologies. These technologies enable printers to use their printing presses more profitably, while improving their ability to meet customer demands for tighter deadlines, better and more consistent color quality, shorter print runs and greater customization of print jobs.

We were the first to develop and commercialize a fully integrated high-speed computer-to-plate solution and our innovations have established thermal imaging as the industry standard for computer-to-plate technology. Since 1994, more than 900 of our computer-to-plate imaging systems have been installed in 29 countries. This is more than twice the number of installations of any of our competitors. Nine of the ten largest commercial printers in North America are adopting Creo systems as their computer-to-plate solution. Creo systems are currently used in the production of high-circulation glossy magazines, including *Glamour, Newsweek, Scientific American, Sports Illustrated* and *Time*, as well as other documents such as color brochures and catalogs.

We are a leader in developing innovative prepress technology. In 1994, we delivered the first commercial computer-to-plate system, which used visible light to create the image on the plate. In 1995, we commercialized the first thermal computer-to-plate system. In 1996, we introduced the first digital proofing device that allows printers to produce accurate, high-quality digital proofs with the same imaging equipment used to image plates. We have been awarded four Graphic Arts Technology Foundation InterTech Technology Awards, which are given for products predicted to have a major effect on the graphic communications industry. The Graphic Arts Technology Foundation is a member-supported, nonprofit technical and educational organization serving the graphic communications industries. Creo is a member of The Graphic Arts Technology Foundation. The Graphic Arts Technology Foundation requires that each member pay an entry fee of $1,000 to be considered for each award.

We are at the forefront of research and development of digital prepress technology, including digital offset press products. We believe that digital offset press technology, which images digital data directly onto a printing press, will become the next generation of prepress for short-run offset printing. Our belief is based on the fact that Heidelberg, the largest press manufacturer in the world, has recently begun shipping a press that uses digital offset press technology, and the fact that MAN Roland, the second largest press manufacturer in the world, has publicly demonstrated a digital offset press. We currently have 371 people involved in research and development and, in the year ended September 30, 1998, our total research and development expenditures were $19.1 million. As of March 31,1999, we held 30 United States and foreign patents and had 39 United States and foreign patent applications pending.

An important part of our growth strategy has been establishing strategic alliances with major industry participants. For example, in October 1997, we established a joint venture with Heidelberg, the largest press manufacturer in the world, to develop, manufacture, market and distribute our computer-to-plate solutions worldwide.

Industry Background

Commercial printing is the largest segment of the printing industry and commercial printers are the largest purchasers of prepress capital equipment. Commercial printers use high speed lithographic offset printing presses, which require a set of master printing plates, to produce multiple copies of high-quality color materials

such as magazines, catalogs and corporate annual reports. In lithographic offset printing, the images to be printed are formed on printing plates and the plates are then mounted onto the printing press cylinders. On the press, only the imaged areas of the plates accept ink. The inked images are then transferred onto the rubber-covered surface of another cylinder, and from that surface onto roll or sheet-fed paper. Lithographic offset printing produces large volumes of high-quality copies at high speed and low variable cost. According to an industry study prepared in July 1998 for NPES The Association for Suppliers of Printing, Publishing and Converting Technologies based in Reston, Virginia, United States revenues of commercial printers in 1997 exceeded $70 billion. In a report prepared for us in January 1998, Pira International, an independent center for printing research based in Leatherhead, England, estimated the non-United States commercial printing market to be approximately 2.25 times larger than in the United States.

The commercial printing industry is mature, fragmented and highly competitive, and is therefore characterized by narrow profit margins. In addition, printers face increasing demands from customers for tighter deadlines, better and more consistent color quality, shorter print runs and greater customization of print jobs. For example, publishers of magazines and catalogs increasingly wish to customize their publications to appeal more effectively to target audiences in different geographic regions or market segments, and to make last-minute changes in response to late-breaking developments.

Our computer-to-plate solutions address the prepress needs of commercial printers. In a report prepared for us in November 1997, State Street Consultants, Inc., an independent consulting firm based in Boston Massachusetts, estimated the worldwide market for prepress imaging equipment to exceed $3 billion in 1995. Although many of the largest commercial printers have begun to adopt computer-to-plate solutions, we believe the market is still developing. We believe that less than 20% of commercial printers in the world currently use computer-to-plate solutions. According to a June 1999 report prepared for Creo by Cloud Information Services, an industry research group based in Nashua, New Hampshire, computer-to-plate unit shipments worldwide are expected to grow at a compound annual growth rate of over 25% from 1999 to 2003.

The Conventional Prepress Process

Conventional prepress requires highly skilled workers to perform a series of complex, time-consuming and labor-intensive manual tasks to create each printing plate.

In conventional prepress, digital pages consisting of text, graphic images and line artwork are created on a computer with word processing and desktop publishing software. These digital pages are converted into a series of dots which are then used to create printing plates. After the multi-colored digital document has been separated into its base component colors (cyan, magenta, yellow and black), a device called an imagesetter uses light or heat to image the series of dots onto single or double page films, or separations. Four films are produced for each page—one for each of the four component colors. Each film is then developed, much like a photographic negative, to make the latent image visible.

Proofs are then made by exposing light-sensitive proofing media (usually coated paper) to the films, in the same sequence that will be used on the press, similar to the way in which photographic prints are made. The resulting composite proof simulates the pages that will be finally output from the press, and any required adjustments can be made to the original files and new films produced before the printing plates are imaged.

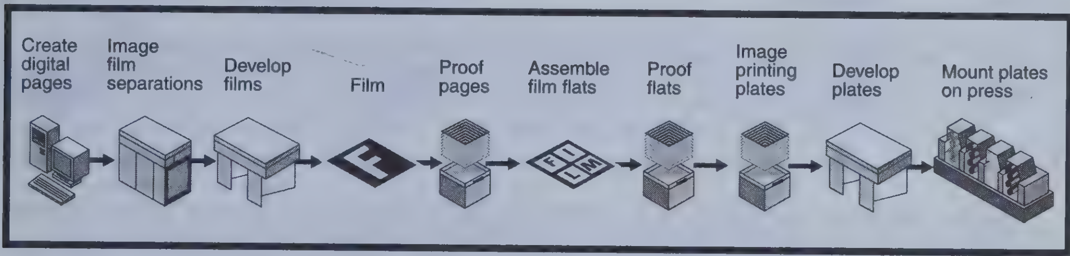
After the pages are proofed, the single or double page films are manually assembled into 2-page, 4-page, 8-page or 16-page ''flats,'' depending on the press size, with each of the four colors requiring a separate flat. A proof is then made of the assembled flats to verify that the individual pages are in the proper order and that the alignment of the assembled films is accurate. For high quality color printing, the alignment of the assembled films must be accurate to within two thousandths of an inch. As a result, alignment is prone to error and frequently requires rework.

Once the proofs have been approved, each flat is used to expose a light-sensitive printing plate, similar to the way in which the proofing media were exposed, creating a positive image on the plate. Each exposed plate

is processed to develop the image, and then manually mounted on the press in the correct color sequence. After mounting, further adjustment of the plates is required to ensure the accuracy of the final printed product. Each plate is then inked with one of the four component colors, and the printing process can begin. During printing, the four plates will impress the paper sequentially, and the final composite printed product will look like the original digital page.

The following diagram illustrates the conventional prepress process:

CONVENTIONAL PREPRESS



Conventional prepress is a complex and expensive process with many shortcomings. For example, the large manual component of the conventional prepress process can lead to inconsistent results, and the conventional process requires the use of costly films and hazardous chemicals. Moreover, the frequency of rework results in idle time for expensive commercial presses. Despite these constraints, printers' customers are increasingly demanding tighter deadlines, better and more consistent color quality, shorter print runs and greater customization of print jobs. To meet these demands, printers must incur additional costs, but cannot readily pass on these costs to their customers. As a result of the shortcomings of the conventional prepress process, printers are limited in their ability to meet the needs of their customers on a cost-effective basis, and have therefore experienced reduced operating margins.

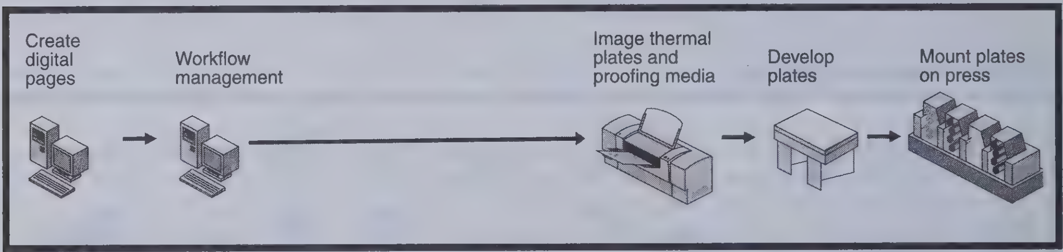
The Creo Solution

Our computer-to-plate solutions consist of a comprehensive range of products that transfer computer-generated images and text directly onto printing plates, eliminating numerous steps from the conventional prepress process, including the creation and processing of film. Our solutions integrate:

- input devices, which digitize film separations;
- workflow software, which manages the flow of data as it is processed and prepared for output;
- proofing systems, which are used to check color and layout by creating a digital simulated copy of what the final printed job will look like; and
- output devices, which transfer data onto plates for use on a printing press.

In the streamlined Creo solution, the digital pages are processed and separated into their four component colors and the resulting series of dots is imaged by the Creo output device directly onto thermal printing plates, eliminating the entire film- and flat-creation process. The plates are then developed and mounted on the press for printing. The following diagram illustrates the prepress process using the Creo solution.

CREO SOLUTION



The key component of our solution is our patented thermal imaging head that uses laser beams to precisely imprint heat-sensitive printing plates and proofing materials. Our thermal head splits the output of a single high-power laser into 240 separate beams. In contrast, most competing computer-to-plate systems use fewer beams for imaging because they require a separate laser to produce each beam. This significantly increases their cost and complexity. In 1996, the Graphic Arts Technology Foundation awarded Creo an InterTech Technology Award for the innovation of our thermal imaging head technology.

We were the first to offer a commercial computer-to-plate system that transfers data onto plates wrapped around the outside of a rotating drum, known as external drum architecture, rather than onto a plate fixed to the inside of a stationary drum, known as internal drum architecture. Since the imaging head can be positioned closer to a plate mounted on an external drum, we believe that external drum technology produces a higher quality image on the plate, particularly in larger formats. Many imaging systems on the market now use external drum architecture. Moreover, since all offset presses are external drum devices, external drum architecture is uniquely suited for on-press imaging applications using digital offset press technology. Our solution is unique because it combines external drum architecture with our multi-beam thermal imaging head. This combination increases imaging throughput while at the same time allowing the drum to rotate more slowly than is possible with systems having fewer beams, thus reducing vibration and the need for precision balancing, enhancing overall plate quality.

In comparison with other commercially available computer-to-plate systems, we believe that our unique combination of technologies delivers:

- more accurate images;
- greater color consistency;
- improved prepress reliability; and
- faster throughput.

The Creo solution allows printers to respond more quickly and cost-effectively to demands from their customers for tighter deadlines, better and more consistent color quality, shorter print runs, and greater customization of print jobs. At the same time they can benefit from reduced print cycle times and more flexible scheduling of presses.

The principal features of our computer-to-plate solutions are:

End-to-End Prepress Solutions

Our solutions integrate a complete range of Creo products that address the entire prepress process. Our scanners, workflow management software, proofing devices, and output devices together comprise a complete and fully integrated digital prepress system. We do not believe any competitor offers a product range comparable in breadth, versatility and performance.

Open Architecture and Connectivity

Our solutions support industry-standard file formats, accommodate a wide variety of input media and are adaptable to emerging file formats. Our equipment is designed to be compatible with printers' existing prepress equipment, thus avoiding waste and making our customers' investment decisions easier. For example, our output devices can image film, for the printers that require this capability.

Modularity and Versatility

The components of our computer-to-plate solutions are modular and can be used separately or assembled in a variety of configurations to meet the needs of customers with varying print volumes and press sizes. For example, printers can add different components to increase functionality, and can add more of the same components to increase capacity. In addition, our output devices can accommodate the full range of plate sizes, throughput requirements and automation levels.

Knowledgeable and Comprehensive Customer Support

We offer comprehensive pre-sale evaluation, installation, system integration, training and post-sale support through what we believe is the most knowledgeable and experienced field service organization in our industry. We believe that our service and support organization, which maintains the reliability and performance of our systems and improves the productivity of our customers, differentiates us from our competitors.

Our Business Strategy

Our objective is to maintain our position as a leading developer and supplier of innovative digital prepress products and technologies. Our business strategy consists of the following key elements:

Expand Our Technology Leadership

We intend to continue to make significant investments in research and the development of innovative, next-generation, market-leading technologies such as digital offset press technology, as well as to apply our existing technologies to new markets such as packaging printing. We will continue to broaden the range of our product offerings as well as enhance the features, reliability and price/performance of our existing computer-to-plate products. Our focus on technology leadership has been critical in building our customer base, and our close co-operation with key customers, press manufacturers and leading industry suppliers has been invaluable in the design process by permitting us to understand and respond to market needs. We are continuing to strengthen our brand image, which we believe is synonymous with market-leading computer-to-plate technology.

Focus on Customer Success

We will continue to work closely with our customers to ensure that our systems generate clear economic benefits for them. We work with our customers during the design process to evaluate the productivity, output quality, reliability and ease of use of our systems. We also maintain service and support relationships with almost all of our customers, and we will continue to expand our customer service capabilities by hiring additional service personnel to be located close to our customers.

Expand and Leverage Strategic Business Alliances

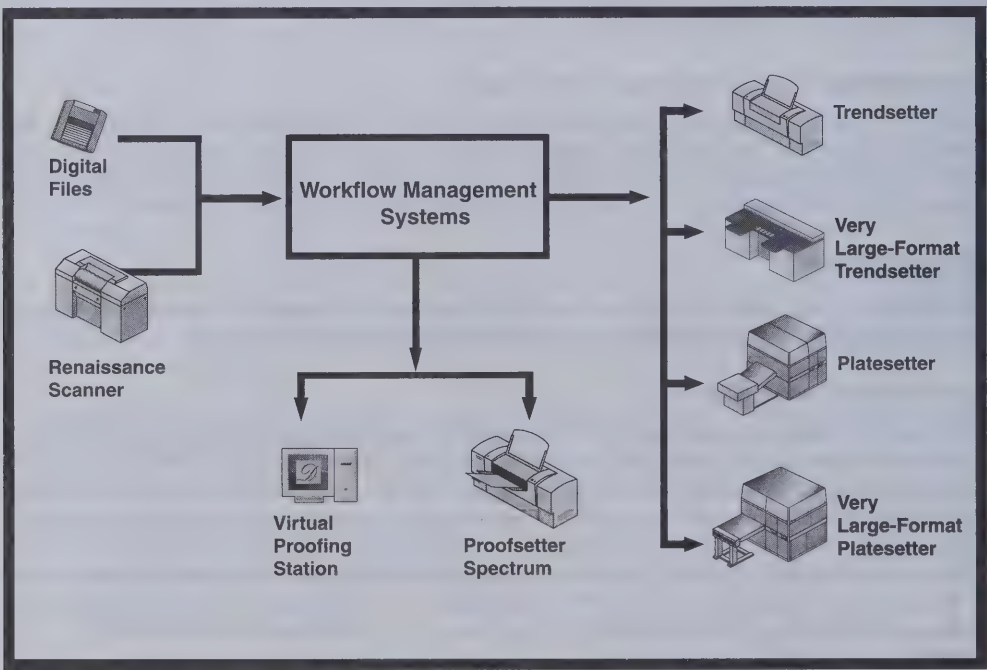
Our success to date has been due in part to our strategy of establishing collaborative relationships with leading commercial printers, manufacturers of printing presses, plates and consumables and others in the commercial printing industry. Our strategy is to continue to develop and expand these collaborative relationships to broaden our distribution, product development and manufacturing capabilities. We believe these strategic relationships allow us to anticipate market needs, develop products to work optimally with new product offerings of press and plate manufacturers and enhance market acceptance of our products.

Expand Our Global Market Presence

We intend to expand our market penetration geographically, with a focus on small to mid-size commercial printers, which generally use 4-page and 8-page presses. We intend to devote considerable resources to enhancing our penetration of the 4-page and 8-page market, primarily through our relationship with Heidelberg. We also intend to expand our presence in the international market for large-format computer-to-plate systems by augmenting our direct sales force and entering into distribution arrangements with leading vendors of thermal plates.

Products

We provide end-to-end digital solutions for prepress automation, which include input devices, prepress workflow management systems and a variety of proofing and output devices:



Digital Input Devices

Our Renaissance scanners enable printers to convert archived film, customer-supplied film and reflective copy into digital data, allowing them to obtain the benefits of digital workflow management. All Renaissance scanners include Creo software tools for alignment and editing. In 1997, the Graphic Arts Technology Foundation awarded us its InterTech Technology Award for our Renaissance scanner. The list prices of our scanners generally range from $225,000 to $345,000, depending on configuration and options.

Workflow Management Systems

Creo's digital workflow management systems incorporate both our proprietary software and third-party software and hardware whose performance we enhance. Our workflow management systems process and archive the vast amounts of data used by printers to create plates and proofs. By reducing the number of repetitive manual tasks and efficiently integrating all aspects of prepress, these systems enhance both productivity and output quality. Our workflow management systems can be configured for varying prepress workflow needs, and for both high-volume and low-volume printers. The list prices of our workflow systems range from $75,000 to $300,000, depending on configuration and options.

Digital Proofing Devices

Our Virtual Proofing Station creates an on-screen digital simulated copy of what a final printed job will look like, permitting confirmation of accuracy and color quality. Our Proofsetter Spectrum, which creates a hard copy of the digital proof, is available both as a stand-alone product and as an optional addition to our Trendsetter output devices. The list price of the Proofsetter Spectrum is $235,000.

Computer-to-Plate Output Devices

Our computer-to-plate output devices are available in several formats capable of handling virtually all plate types and sizes. All of our output devices currently use the same thermal imaging technology and multi-channel thermal imaging head.

Platesetter. The fully automatic Platesetter is designed for high-quality, high-volume commercial printers exposing up to 450 plates daily. It enables a single operator to load up to 600 plates of up to six different sizes at a time without removing the plates from their shipping cartons. In 1994, the Graphic Arts Technology Foundation awarded us an InterTech Technology Award for the Platesetter 3244. In 1996, we introduced the Very Large-Format Platesetter (very large format) to respond to printers' needs for larger computer-to-plate plates designed for wide web presses that use rolls of paper, rather than individual sheets. The list prices of the Platesetter generally range from $390,000 for the Platesetter 3244 to $860,000 for the Very Large-Format Platesetter, depending on configuration and options.

Trendsetter. The semi-automatic Trendsetter is designed for high-quality, commercial printers exposing up to 300 plates daily. These printers have less need for the full automation of the Platesetter since they use fewer plates. Upgrades to the basic Trendsetter are available to provide automatic plate handling and to permit proofing with our Proofsetter Spectrum option. The versatility and multi-function capability of the Trendsetter makes it particularly attractive to small and mid-size commercial printers since it provides proofing capabilities at a modest increase in capital expense. For many printers, the multi-use Trendsetter can meet all requirements for plates, proofs and film, where required. Larger printers can use the Trendsetter primarily to image proofs and to provide peak-period plate-making capacity and backup for their primary Platesetter. The list prices for Trendsetter output devices generally range from $135,000 for the Trendsetter 3230 to $550,000 for the Very Large-Format Trendsetter, depending on configuration and options.

Research and Product Development

Our research and product development activities are performed in-house by a group of engineers and scientists with expertise in a variety of fields, including software, electronics, mechanics, optics, physics and chemistry. Product development is organized around core teams with representatives from all areas of our company. Each core team has the authority to manage all aspects of its products and projects, including product architecture, core technology, functionality and testing.

In the fiscal years ended September 30, 1996, 1997 and 1998, our total research and product development expenditures were $14.7 million, $14.9 million and $19.1 million, respectively. For the six months ended March 31, 1999, our total research and product development expenditures were $13.3 million. We have

received funding for our research and development work from media suppliers, press manufacturers and our customers in connection with specific product development initiatives which they have asked us to undertake. We have also received funding from the Canadian government through investment tax credits. From October 1, 1995 through March 31, 1999, we received an aggregate of $26.3 million in research and development funding from these sources.

Our current research and product development efforts are focused on improving our current product line, including enhancements to our thermal imaging head technology, developing next generation workflow and output devices, including a line of digital offset press products, and applying our core technologies to new printing markets and methods such as packaging printing and flexography.

Workflow Systems

Creo and Heidelberg are co-developing a state-of-the-art family of workflow and related products to manage the prepress operation. The new system is designed to fully automate the prepress process by providing intelligent scheduling and workflow optimization through an open standard, multi-user architecture that can be adapted to fit the needs of any size printer. It is device-independent and extremely flexible, and integrates easily with most output devices. It is designed for medium and large commercial printers, is adaptable to both black and white and color printing and can accommodate growth in printers' prepress operations.

Digital Offset Press

We are working with the leading manufacturers of printing presses to develop advanced digital offset press systems. A digital offset press imaging system images digital data directly onto the press. The digital offset press technology that we are currently introducing through Heidelberg uses a plate that is similar to standard computer-to-plate plates, which is fixed to the press before being imaged, but which must be replaced each time the image changes. We also have under development a new generation of digital offset press technology in which the plate cylinder is coated with a polymer and imaged. After the job has been printed, the plate cylinder is ''erased'' and a new coating of polymer is applied, allowing new data to be imaged for the next job. Digital offset press technology is expected to further reduce the total cost of prepress and press set-up for offset printers. This should allow printers to compete more effectively with alternative printing technologies that have low set-up costs and are generally used for short print runs.

Flexography

We have begun applying our knowledge of prepress to the second largest segment of the printing industry, packaging printing. Package printers use a variety of printing processes, the most common of which is flexographic printing. Rather than using the metal plates traditionally used by commercial printers, flexographic printers primarily use more expensive rubber plates for printing onto a wide variety of materials including plastic, film, paper, cardboard and metal. According to a 1996 study prepared for the Graphic Arts Marketing Information Service of Alexandria, Virginia by Strategies for Management, Inc., an industry group, the estimated size of the packaging market in 1996 was $55 billion and flexography represented approximately 60% of that market.

In 1998, we introduced several prototype units of our Thermoflex digital flexographic platesetter for packaging printers. This device has high productivity and incorporates plate handling features that minimize damage to the expensive plate material. It can image flexographic plates of any size and thickness without any reduction in processing speed. Digital flexographic plates offer significantly higher quality than conventional flexographic plates, and allow flexographic printers to compete more effectively with other printing methods.

The Thermoflex can also image processless thermal film using a proprietary process which improves the performance of less expensive flexographic plates. In March 1999, the Flexographic Pre-Press Platemakers Association awarded Creo its Technological Innovator of the Year Award for the Thermoflex. The list price of the Thermoflex is expected to be in the range of $400,000 to $495,000, depending on configuration and options.

Our Joint Venture with Heidelberg

In October 1997, we established a joint venture with Heidelberg to develop, manufacture, market and distribute our 4-page and 8-page computer-to-plate products and related workflow management products and consumables worldwide, and to develop additional prepress products. Heidelberg is the largest manufacturer of printing presses in the world and the leading supplier of the 4-page and 8-page sheet-fed printing presses. The 4-page and 8-page printing presses are the type most commonly used by small and mid-size commercial printers. For the year ended March 31, 1998, Heidelberg reported total revenues in excess of $3.5 billion, of which approximately $2.3 billion was attributable to sales of these presses. For the six months ended March 31, 1998, Heidelberg's revenue associated with the joint venture was $16.3 million. With offices in more than 160 countries, Heidelberg has substantial international marketing and distribution channels for commercial printing presses and prepress equipment, and an extensive customer support and service organization. We expect to realize significant benefits from the joint venture with Heidelberg. These include:

- access to Heidelberg's worldwide customer base of small and mid-size commercial printers, through its established marketing and distribution network;
- access to Heidelberg's extensive service and customer support organization outside North America;
- shared funding of some of our research and development projects relating to joint venture computer-to-plate products; and
- cost-effective manufacture of some computer-to-plate products by Heidelberg at its manufacturing facilities in Kiel, Germany.

Under the agreement with Heidelberg:

- each party provides goods and services to the joint venture at cost, as defined in the agreement;
- in general, costs and profits are shared equally;
- Heidelberg is the principal manufacturer of our 4-page and 8-page Trendsetter output devices, although we continue to manufacture a limited quantity of these products at our facilities in British Columbia;
- Creo has the right to be the sole supplier of thermal imaging heads for use with joint venture computer-to-plate products;
- North American marketing and distribution of most joint venture products is done jointly, although Creo has reserved some key North American accounts for itself; elsewhere, marketing and distribution is done through Heidelberg's distribution channels;
- prices for joint venture products are established jointly;
- Heidelberg may not sell computer-to-plate products of other manufacturers as long as it markets and distributes joint venture products, and we may not use third parties to market our computer-to-plate products that are not covered by the joint venture, such as the Very Large-Format Trendsetter, without first offering marketing and distribution rights to Heidelberg;
- in North America, Creo provides customer service and support for our 4-page and 8-page computer-to-plate products; in the rest of the world these functions are generally performed by Heidelberg. Neither the costs nor the revenues associated with customer service and support are shared;
- we are the exclusive provider of research and development for joint venture computer-to-plate products and related consumables, and we work jointly with Heidelberg on research and development relating to workflow products; and
- in general, intellectual property developed in connection with the joint venture remains the property of the party that developed it, but is licensed to the joint venture without charge.

The joint venture is co-managed. It does not own any material assets, maintain any employees or operate its own manufacturing or other operating facilities. Disputes concerning most financial matters will be

submitted to the joint binding determination of our respective independent auditors. To date there have been no disputes submitted to either parties' auditors for resolution. If the independence of the auditors would be impaired by their determining a dispute, they would be prevented from rendering a determination. Disputes over the interpretation of the joint venture agreement may, as a last resort, be submitted to binding arbitration. If a dispute arises concerning the operation or management of the joint venture and the parties cannot reach agreement on the matter, either party may terminate the joint venture if it considers that resolution of the disagreement is necessary to the continuation of the joint venture.

Our agreement with Heidelberg grants broad termination rights to both parties. For example, either party may terminate the joint venture if the joint venture fails to achieve, for any rolling 12-month period after March 31, 1999, the highest revenue levels in both Europe and North America of any seller of computer-to-plate products that are competitive with the computer-to-plate products sold by the joint venture. Although this level of financial performance was not achieved for the 12 months ended March 31, 1999, the parties have elected to continue the joint venture. It is uncertain whether this requirement will be met for any such 12 month period. Each party also has the right to terminate in certain other defined events, including:

- the other party becoming bankrupt;
- a 25% or greater ownership interest in the other party being acquired by another seller of computer-to-plate products;
- the other party failing to commit appropriate resources to achieving the objectives of the joint venture; and
- the other party committing a breach of a material obligation under the joint venture agreement and, having been given notice of the breach, failing to remedy it within 45 days.

If the joint venture is terminated, the agreement provides that the parties will cooperate to ensure that each party still has access to the products, the manufacturing facilities and the service organization and distribution channels formerly provided by the other through the joint venture, so that each party can independently develop the business capabilities previously available through the joint venture. Specifically:

- we will license Heidelberg to manufacture and distribute our computer-to-plate products, at fair original equipment manufacturer prices, for two years;
- each party will grant the other a license for up to three years, relating to workflow products and components for which it owns the intellectual property rights, at fair original equipment manufacturer prices; and
- we will complete, on an equal cost-sharing basis, any research and development obligations undertaken prior to termination.

Sales and Marketing

We sell and support our products through both direct and indirect sales organizations, including the joint venture with Heidelberg. Our direct sales organization consists of over 100 people located at our headquarters in Burnaby, British Columbia; in regional sales offices in various locations in the United States, including Boston, Chicago, Los Angeles and San Francisco; in Brussels, Belgium; and in Sydney, Australia.

Our direct sales organization is responsible for sales worldwide (except in Japan) of all products not included in the joint venture with Heidelberg. Both Creo and Heidelberg sell joint venture products in North America. Outside of North America, Heidelberg is the exclusive marketer and distributor of joint venture products. In Japan, we sell our computer-to-plate products through Dainippon Screen Mfg. Co. Ltd. and Heidelberg.

Production and Assembly

We produce and assemble our Renaissance scanners, Platesetter 3244, Very Large-Format Platesetter and Very Large-Format Trendsetter output devices, and all thermal imaging heads, in our three production facilities in British Columbia. We also produce a limited number of 4-page and 8-page computer-to-plate output devices for distribution in North America. We perform electro-optical assembly, precision mechanics and electro-mechanical assembly, as well as testing and systems integration at these facilities. In order to maintain flexibility and reduce costs, we sub-contract the manufacture and assembly of some of the components of our output devices. All of our output devices are designed to use the same imaging heads, resulting in reduced inventory requirements and increased manufacturing and servicing efficiencies.

The majority of the 4-page and 8-page Trendsetter output devices to be distributed by the joint venture worldwide are currently assembled at Heidelberg's manufacturing facility in Kiel, Germany. The joint venture agreement contemplates periodic reviews of the cost competitiveness of each manufacturing facility and, based on these reviews, manufacturing responsibility can be reassigned. Nevertheless, a party with manufacturing responsibilities can retain them, even if it is not cost competitive, so long as it agrees to subsidize the joint venture for the incremental cost of manufacturing at its facility.

We manufacture products based on customer orders, although we purchase some subassemblies and components prior to receipt of customer orders. Lead times for the materials and components that we order vary significantly, depending on factors such as the specific supplier, contract terms and the demand for a component at a given time.

Customers and Customer Support

More than 900 of our computer-to-plate systems have been installed at over 480 customer sites in 29 countries. Many of the largest commercial printers in North America have installed our systems at multiple sites. About half of our current customers are small and mid-size commercial printers, principally in North America. We expect to expand our penetration of the worldwide small and mid-size printing market, principally through our joint venture with Heidelberg. We also intend to increase sales of our large format systems worldwide, principally through our own direct sales force. In the six months ended March 31, 1999 and in fiscal 1998 no customer accounted for more than 10% of our revenue. In fiscal 1997, only one customer accounted for more than 10% of our total revenue.

We provide comprehensive services to our customers including on-site and 24 x 7 on-line service and support. Upon delivery of one of our systems, a team performs the installation and initial testing procedures and supports the site until the customer has accepted the system. Our field operations team and strategically located service representatives provide same-day or next-day on-site service under support contracts. We also have experienced engineers connected by modem with each of our systems in North America to provide immediate remote-line diagnostics and troubleshooting. We also provide instruction to customers in the use of all of our products, both at their sites and at our training centers located at our headquarters and at a software training center near Chicago. Technical news and updates, as well as software upgrades, are posted on our web site for easy remote access. Heidelberg's extensive international customer service and support organization supports sales by the joint venture outside North America.

Intellectual Property

Our success and ability to compete are dependent in part on our ability to develop and protect our proprietary technology. We file United States and, where appropriate, foreign patent applications to protect technology, inventions and improvements important to the development of our business. We also rely on a combination of copyright, trademark and trade secret rights, confidentiality agreements and licensing arrangements.

As of March 31, 1999, we held 24 issued United States patents and 6 issued foreign patents and had 30 United States and 9 foreign patent applications pending. These issued and pending patents cover various

aspects of our products and processes. The expiration dates of our issued patents range from January 2003 to January 2017.

Our confidentiality and proprietary information agreements with our senior management, other employees and others generally provide that all confidential information developed or made known to these individuals by us during the course of a relationship with us is to be kept confidential and not disclosed to third parties, except in specific circumstances. The agreements also generally provide that all inventions developed by the individual in the course of rendering service to us belong exclusively to us.

Competition

The market for digital prepress equipment and systems is highly competitive. It is changing rapidly and is affected by changes in customer requirements, new product introductions and other market activities of industry participants. We face direct competition from other manufacturers of prepress input and output systems. Our principal direct competitors in the prepress automation systems market are Scitex Corporation Ltd., Agfa-Gevaert N.V., Dainippon Screen Mfg. Co. Ltd., Barco N.V. and Cymbolic Sciences International, Inc. Other companies offer equipment that competes with specific products or product capabilities within our product line.

The principal competitive factors affecting sales of our solutions are price relative to performance and customer service. Potential customers typically weigh price against throughput of systems, quality, reliability and cost of operation. They demand a high level of training, support and service, and adaptability to their specific requirements and existing equipment.

We also face potential indirect competition from other printing methods, principally xerography. Xerography is the printing process used in most ordinary office copiers, in which an electrostatic image is developed with a dry powder toner and then transferred to paper. Xerography has benefited from recent technological innovations that could make it an economic alternative to offset printing for low volume print runs. Xerography enables different images to be printed on successive pages and is sometimes described as ''on-demand'' printing. If recent innovations in xerographic technology enable higher quality color images to be reproduced xerographically in larger volumes and with lower variable costs, xerography could present an alternative to lithographic printing at relatively low print volumes. We expect that for the foreseeable future the cost per page of xerography will continue to be higher than that of offset lithography, and that these devices will be used primarily to provide highly variable or extremely short run printing. At the same time, we believe that the emergence of a mature digital offset press technology has the potential to transform the lithographic offset press into a press that can be used for short print runs and that can compete with recent innovations in xerographic technology, wherever page-to-page variation is not required.

Employees

As at March 31, 1999, we employed 1,237 people full-time. Of these, 371 are engaged in research and product development, 339 in manufacturing, 298 in customer support activities, 127 in marketing and sales and 102 in administration.

We believe we have developed a unique corporate culture that attracts highly qualified and motivated employees. We emphasize teamwork, flexibility, local decision making and the free flow of information. Employee turnover is low, and most of our employees hold either common shares or options to acquire common shares. We have never had a work stoppage and no employees are covered by collective bargaining agreements. We believe our employee relations are excellent.

Facilities

Our headquarters are located in Burnaby, near Vancouver, in British Columbia, Canada. We own two adjacent facilities totaling 213,000 square feet housing our executive and administrative offices, our product development group, a demonstration facility, customer support response center, customer training facility, and a thermal head production facility. We also own a 140,000 square foot production facility in Delta, British Columbia, which includes a modern assembly area, cleanrooms for integration and product testing and a precision machine shop with computer controlled equipment. The Delta facility and one of the two Burnaby facilities are mortgaged to a Canadian chartered bank. The mortgage matures on February 4, 2002. We have regional sales and service offices in leased premises in various locations throughout the United States. Our European sales, service and training operations are headquartered in Brussels, Belgium, under a lease expiring in December 2005.

Legal Proceedings

We are involved from time to time in legal proceedings in the ordinary course of our business, including actions relating to our intellectual property rights. We do not believe that the outcome of any present litigation will have a material adverse effect on our business, operations or financial condition.

MANAGEMENT

Directors and Executive Officers

The following table presents information about our directors and executive officers, as of March 31, 1999:

Name and Municipality of Residence Principal Occupation (other than Creo)	Age	Position with Creo
Amos Michelson (1) Vancouver, British Columbia	46	Chief Executive Officer and Director
Daniel Gelbart Vancouver, British Columbia	52	President and Director
Michael D. Ball Brussels, Belgium	37	Vice President, Sales and Support of Creo Products N.V.
N. David Brown Vancouver, British Columbia	44	Vice President, Business Strategy
Mark N. Dance Vancouver, British Columbia	35	Vice President and Chief Operating Officer
Philippe H. Favreau Vancouver, British Columbia	36	Vice President, Manufacturing
Kevin M. Joyce Boston, Massachusetts	33	Vice President, Sales of Creo Inc.
Thomas A. Kordyback Vancouver, British Columbia	47	Vice President, Finance, Chief Financial Officer and Secretary
Robert J. Mielcarski Delta, British Columbia	40	Vice President, Business Systems and Technology
Boudewijn P. Neijens Brussels, Belgium	40	General Manager of Creo Products N.V.
B. Darcy O'Grady Vancouver, British Columbia	45	Vice President, Human Resources
Michael Rolant Vancouver, British Columbia	37	Vice President, Customer Support
Raphael H. Amit, Ph.D. (1)(2) Vancouver, British Columbia *Professor, University of British Columbia*	51	Chair of the Board and Director
David A. Bennett (2) Vancouver, British Columbia *Managing Director,* *Business Development Bank of Canada*	58	Director
Thomas D. Berman (1)(3) Winnetka, Illinois *Executive Director, Brinson Partners, Inc.*	41	Director
John J. Bu (1)(3) Short Hills, New Jersey *Vice President, Goldman, Sachs & Co.*	35	Director
Douglas H. Richardson Vancouver, British Columbia	37	Director
Kenneth A. Spencer, Ph.D. (1)(2) Vancouver, British Columbia *Corporate Director*	55	Director

(1) Member of the Compensation, Nominating and Corporate Governance Committee.
(2) Member of the Audit Committee.
(3) Member of the Finance Committee.

The following is a brief biography of each of Creo's directors, executive officers and key employees:

Amos Michelson has been our Chief Executive Officer since June 1995 and a director since March 1992. From August 1991 to June 1995, he was our Vice President, Business Strategy. For approximately ten years prior to joining us in 1991, he held various positions with Optrotech Ltd., an Israeli developer and manufacturer of optical and imaging systems for the printed circuit board industry, most recently Chief Operating Officer. Mr. Michelson holds a B.Sc. in electrical engineering from the Technion in Israel and an M.B.A. from the Stanford Graduate School of Business in the United States.

Daniel Gelbart has been the President of Creo since February 1991 and a director since our formation in 1985, except for the period from February 1997 to February 1998. From May 1985 until February 1991, Mr. Gelbart was Creo's Vice President. Mr. Gelbart holds a B.Sc. and an M.Sc. in electrical engineering from the Technion in Israel.

Michael D. Ball has been Vice-President, Sales and Support, Creo Products N.V., since May 1998. He joined us in April 1997 and, prior to his appointment as Vice President, Sales and Support, Creo Products N.V., he was Director, Sales and Support, of Creo Products, Inc. From June 1994 to April 1997, he worked in Canada as an independent business and technical support consultant. From June 1985 to June 1994, he held various sales and management positions with Digital Equipment of Canada, a manufacturer of computer systems, most recently as Sales Manager. Mr. Ball holds a B.Comm. from the University of British Columbia in Canada.

N. David Brown has been our Vice President, Business Strategy since June 1995. He joined Creo in November 1990 and, prior to his appointment as Vice President, Business Strategy, held various positions, including Vice President, Product Development from September 1994 until June 1995, Director of Imaging Products from January 1993 until September 1994, Project Manager from May 1991 until January 1993, and Design Engineer from November 1990 until May 1991. Prior to joining Creo, Mr. Brown was a co-founder and served as Director of Product Development with TIR Systems, Inc., a Vancouver, British Columbia-based manufacturer of lighting systems. Mr. Brown holds a B.A.Sc. in automation engineering from Simon Fraser University in Canada.

Mark N. Dance became our Chief Operating Officer in October 1997. He joined us in May 1994, and prior to his appointment as Chief Operating Officer, he held a variety of positions including Vice President, Operations from January 1997 until October 1997, Vice President, Product Development from June 1995 until December 1996, Product Manager for all computer-to-plate products from November 1994 until May 1995, and Project Manager from May 1994 until October 1994. From April 1986 to May 1994, he worked in Canada for Andronic Devices Ltd., a developer of surgical and medical automation devices, first as a Senior Project Engineer and later as the Director of New Product Development. Mr. Dance holds a B.Sc. in mechanical engineering from the University of British Columbia.

Philippe H. Favreau has been our Vice President, Manufacturing since June 1996, having previously been Operations Manager since October 1995. From September 1992 until September 1995, Mr. Favreau worked in France for Schneider Electrical S.A., a supplier of electrical components. Mr. Favreau is a graduate in engineering physics from École Polytechnique of Grenoble in France, and holds an M.Sc. in nuclear sciences from École Polytechnique of Montreal in Canada and an M.B.A. from the University of Paris in France.

Kevin M. Joyce was appointed Creo's Vice President, Sales for North America in March 1997. From February 1994 to March 1997, he was Creo's Director, Sales for the Eastern Region. Between 1989 and January 1994, Mr. Joyce worked in the U.S. for Optrotech Ltd. Most recently, Mr. Joyce was the Sales Manager of Optrotech's Graphic Arts Division from July 1993 to January 1994. Mr. Joyce holds a B.A. in American Studies from St. Michael's College in the United States.

Thomas A. Kordyback became Creo's Vice President, Finance, Chief Financial Officer and Secretary in July 1995. From May 1993 until July 1995, he served as Chief Financial Officer of Telelink Communications

Corp., a Canadian paging systems company. Prior to May 1993, Mr. Kordyback worked in Canada as an independent business consultant. He holds a B.A. in economics from the University of Victoria in Canada and holds the Chartered Accountant designation.

Robert J. Mielcarski has been Creo's Vice President, Business Systems and Technology since January 1999. He joined Creo in November 1995 and, prior to his current appointment, he held various positions including Vice President, Product Development from November 1996 to January 1999, and Product Manager for Digital Offset Press from November 1995 to November 1996. From November 1990 until November 1995, Mr. Mielcarski served as Vice President, Research and Development for Dynapro Systems, Inc., a Canadian developer and manufacturer of industrial automation systems. Mr. Mielcarski holds a B.Sc. and an M.Sc. in electrical engineering from the University of British Columbia.

Boudewijn P. Neijens has been the General Manager of our Belgian subsidiary, Creo Products N.V., since joining us in October 1994. From July 1992 until September 1994, he was the European Sales and Marketing Director of Optrotech Ltd. From February 1989 to July 1991, Mr. Neijens served as Desktop Products Group Manager of Crosfield Electronics Ltd., an English manufacturer of electronic prepress systems. From March 1983 to January 1989, Mr. Neijens worked in Belgium for Brepols N.V., Belgium's largest commercial printer, as the manager of its prepress production department. Mr. Neijens holds an M.A. in mechanical engineering from the University of Brussels in Belgium and an M.B.A. from the Institut Superieur d'Études Administratives in France.

B. Darcy O'Grady has been our Vice President, Human Resources since June 1996. He joined us in November 1994 and, prior to his appointment as Vice President, Human Resources, he served as Director, Human Resources. From 1986 to June 1994, Mr. O'Grady was Director, Human Resources of MacDonald Dettwiler & Associates, a systems engineering company based in Richmond, British Columbia. Mr. O'Grady holds a B.A. in Economics from Simon Fraser University.

Michael Rolant has been Creo's Vice President, Customer Support since June 1996, having previously served as Creo's Worldwide Customer Service Manager since he joined us in October 1995. From September 1989 until October 1995, Mr. Rolant held various positions in Israel and the United States with Orbotech Ltd., a developer and manufacturer of automated inspection machinery for the printed circuit board industry, including Regional Operations Manager from February 1995 to October 1995, Customer Support Co-ordinator from June 1993 to February 1995, and Senior Systems Specialist from November 1991 to June 1993. Mr. Rolant holds a B.Sc. in electrical engineering from Tel Aviv University in Israel and an M.Sc. in management from Lesley College in the United States.

Raphael H. Amit has been the Chair of the Board and has served as one of our directors since January 1996. Since August 1990, he has been a professor at the University of British Columbia. In addition, since July 1994, he has been the Peter Wall Distinguished Professor of Entrepreneurship and Venture Capital at the University of British Columbia. Dr. Amit holds a B.A. and an M.A. in economics from Hebrew University in Israel, and a Ph.D. in Managerial Economics from the J.L. Kellogg Graduate School of Management at Northwestern University in the United States.

David A. Bennett has served as one of our directors since April 1994. Since June 1992, Mr. Bennett has been a Managing Director of the venture capital division of the Business Development Bank of Canada. Mr. Bennett holds the Chartered Accountant designation.

Thomas D. Berman has served as one of our directors since June 1998. Since September 1990, he has been with Brinson Partners, Inc., an investment management firm, where he is currently Executive Director in the Private Markets Group. Mr. Berman holds a S.B. in Electrical Engineering from the Massachusetts Institute of Technology and an S.M. from the M.I.T. Sloan School of Management in the United States.

John J. Bu has served as one of our directors since January 1997. Since August 1991, he has been with Goldman, Sachs & Co., an investment banking firm, where he is a Vice President in the Principal Investments

Area. Mr. Bu holds a B.A. in History and a B.S. in Finance from the University of Pennsylvania in the United States, and a J.D. from Harvard University in the United States.

Douglas H. Richardson has served as one of Creo's directors since January 1999 on the nomination of our employees. Mr. Richardson has been the Thermal Imaging Product Manager since October 1997. Since joining Creo in October 1991 as a Systems Engineer, he has held various positions, including Project Manager of Digital Offset Press and Thermal Imaging from September 1993 to July 1995, and Product Manager of all computer-to-plate devices from July 1995 to October 1997. Mr. Richardson holds a B.Sc. in engineering physics and an M.Sc. in mechanical engineering from the University of British Columbia.

Kenneth A. Spencer co-founded Creo and has been a director since our formation in 1985, except for the period from January 1996 to January 1997. From May 1985 to June 1995, he was our Chief Executive Officer, and from May 1985 to January 1996, he also served as the Chair of our board of directors. Mr. Spencer is a member of the board of directors of Spectrum Signal Processing, Inc., a publicly traded company specializing in digital signal processing. Dr. Spencer holds a B.Sc. and Ph.D. in electrical engineering from the University of British Columbia and an M.B.A. from Simon Fraser University.

Executive officers are appointed annually by the board of directors and serve until their successors are appointed and qualified. There are no family relationships among any of our officers or directors.

Creo does not have employment agreements with its executive officers. However, we have entered into post-termination two-year non-competition agreements with Messrs. Brown, Dance, Gelbart, Kordyback and Michelson.

Creo's board of directors

Creo's directors are elected at our annual meeting of shareholders and serve until their successors are elected or appointed, unless they resign or are removed earlier. Our articles of incorporation provide for a board of directors of a minimum of two and a maximum of nine directors. The board currently consists of eight directors. Under the Canada Business Corporations Act, a majority of our directors and any committee of the board of directors must be composed of resident Canadians.

Messrs. Amit, Bennett, Berman, Bu, Gelbart, Michelson, Richardson and Spencer were elected to the board of directors in accordance with the provisions of the Shareholders Agreement among Creo and certain of its principal shareholders. These provisions of the Shareholders Agreement will terminate upon completion of this offering.

Committees of the board of directors

Creo's board of directors has established three committees:

The Compensation, Nominating and Corporate Governance Committee is responsible for reviewing the terms of employment and compensation arrangements for our senior executives, succession planning, awards under our 1996 Stock Option Plan and our Employee Profit Sharing Plan, maintaining a continuous review of board and committee effectiveness and making recommendations for nominees to be elected or appointed as directors.

The Audit Committee is responsible for reviewing and making recommendations to Creo about independent auditors, the annual audit of our financial statements and our internal accounting practices and policies.

The Finance Committee is responsible for reviewing and making recommendations to Creo's board of directors concerning the terms and conditions of financings, risk management and transactions which could materially affect our financial or corporate structure.

Director Compensation

Our directors are not compensated for serving as directors. Our directors are eligible to participate in our 1996 Stock Option Plan.

Indemnification of Directors and Executive Officers and Limitation of Liability

Creo's by-laws provide that we will indemnify any of our directors, former directors, officers and former officers, and other parties specified by the by-laws, against all costs reasonably incurred by them for any civil, criminal or administrative action or proceeding to which they are or may be made a party by reason of having been a director or officer of Creo. The indemnity covers amounts paid to settle actions or to satisfy judgments. However, Creo may only indemnify one of these persons, if that person acted honestly and in good faith with a view to the best interests of Creo, and, in the case of a criminal or administrative action or proceeding, if the person had reasonable grounds for believing that his or her conduct was lawful. The Canada Business Corporations Act provides that court approval is required for the payment of any indemnity in connection with an action brought by or on behalf of Creo. Creo has entered into indemnification agreements with each director and executive officer. We have been informed that, in the opinion of the U.S. Securities and Exchange Commission, the indemnification of directors, officers or persons controlling Creo for liabilities arising under the United States Securities Act of 1933 is against the public policy position expressed by the Act and is therefore unenforceable.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation, Nominating and Corporate Governance Committee are currently directors Michelson, Amit, Berman, Bu and Spencer. None of Dr. Amit, Mr. Berman or Mr. Bu has at any time been an officer or employee of Creo.

Executive Compensation

In fiscal 1998, Creo paid an aggregate $1,058,472 in cash compensation to the directors and officers named under the caption ''Directors and Executive Officers,'' as a group (18 persons).

At March 31, 1999, our directors and officers, as a group, held options to purchase a total of 847,378 common shares, at exercise prices ranging from C$3.75 to C$17.50 per common share. These options are scheduled to expire on various dates between August 31, 2000 and January 4, 2004.

Summary Compensation Table

The following table presents information concerning compensation earned for services rendered during each of our last three fiscal years by our Chief Executive Officer and our other four most highly compensated executive officers. Except as noted below, there were no long term compensation awards paid to these five officers during the fiscal years. The annual compensation presented below excludes perquisites and other personal benefits because these benefits did not exceed 10% of the total annual salary and bonus for any of these five officers.

		Annual Compensation			Long-Term Compensation
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Other Annual Compensation**	**Securities Under Options Granted (#)**
Amos Michelson	1998	$ 94,435	$179,897	$ 4,551	—
Chief Executive Officer	1997	93,782	128,682	4,343	—
	1996	86,591	—	4,359	—
Daniel Gelbart	1998	94,435	179,897	4,551	—
President	1997	93,782	128,682	4,343	—
	1996	86,591	—	4,359	—
Kevin Joyce	1998	145,444	—	7,929	186
Vice President, Sales of Creo Inc.	1997	243,198	—	12,000	7,334
	1996	104,422	—	12,000	113,200
Michael Ball	1998	115,047	—	—	6,094
Vice President, Sales	1997	85,287	—	—	4,000
and Support of Creo Products N.V.	1996	33,936	—	—	—
Boudewijn Neijens	1998	82,414	—	7,254	8,186
General Manager of	1997	86,301	—	7,377	13,000
Creo Products N.V.	1996	96,140	—	6,504	12,500(1)

(1) Indicates common shares awarded to Mr. Neijens.

Option Grants in 1998 Fiscal Year

The table below shows information regarding grants of stock options made to our Chief Executive Officer and our other four most highly compensated executive officers.

					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term		
Name	**Securities Under Options Granted (#)**	**% of Total Options Granted to Employees in Financial Year**	**Exercise Price (C$/Share)**	**Market Value of Securities Underlying Options on the Date of Grant**	**5%**	**10%**	**Expiration Date**
Kevin Joyce	186	0.02%	C$17.50	C$17.50	C$899	C$1,987	January 1, 2003
Michael Ball	6,094	0.73%	C$17.50	C$17.50	C$29,464	C$65,108	January 1, 2003
Boudewijn Neijens	8,186	0.98%	C$17.50	C$17.50	C$39,579	C$87,459	January 1, 2003

Fiscal Year-End Option Values

The following table shows information relating to unexercised options held as of September 30, 1998 by our Chief Executive Officer and our other four most highly compensated executive officers. No options were exercised by these officers during fiscal 1998.

Name	Unexercised Options as at September 30, 1998 (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options at September 30, 1998 Exercisable/ Unexercisable*
Kevin Joyce	31,696 / 81,066	C$243,046 / C$607,995
Michael Ball	12,378 / 0	C$44,511 / C$0
Boudewijn Neijens	22,186 / 0	C$97,500 / C$0

* The value of unexercised in-the-money options has been determined based on the fair market value of the common shares as determined by Creo's board of directors on the date of option grant.

Employee Benefit Plans

1996 Stock Option Plan

Our 1996 Stock Option Plan provides for the grant of incentive stock options to employees and nonstatutory stock options to employees and consultants. The purposes of the plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentives to employees and consultants and to promote the success of our business.

The plan was approved by our board of directors in November 1995 and by our shareholders in January 1996. The plan will terminate in November 2005, although the board of directors may terminate it earlier. We have reserved 8,000,000 common shares for issuance under the plan. As of March 31, 1999, options to purchase 4,595,232 common shares were outstanding, 60,428 common shares had been issued on exercise of options granted, and 3,344,340 common shares remained available for future grant. The outstanding options are exercisable at prices between C$3.75 and C$17.50 per share. They expire on various dates between January 31, 2001 and January 4, 2004. Between January 1, 2000 and January 4, 2001, 201,588 of the outstanding options vest at various rates. The remaining outstanding options are fully vested. Options granted under the plan are generally fully vested at the time of grant.

The plan is administered by our board of directors, which acts on the recommendation of its compensation committee. Options may be awarded both as a form of compensation and as an incentive. The board determines the terms of options granted under the plan, including the number of common shares that may be purchased and the exercise price. The exercise price of incentive stock options must be at least 100% of the fair market value of the common shares on the date of grant. However, the exercise price of options granted to an employee who holds more than 10% of the total voting power of all classes of our share capital must be at least 110% of the fair market value of the common shares at the date of grant. The exercise price of nonstatutory stock options granted under the plan is determined by the board of directors. Payment of the exercise price may be made in cash or other forms of consideration approved by the board.

The term of options may not generally exceed ten years. In the case of an option granted to a holder of more than 10% of the total voting power of all classes of our share capital, the maximum term is 5 years. Our practice to date has been to grant options with five-year terms.

The plan provides that options generally must be exercised within 30 days after the termination of the optionee's status as an employee or consultant. There are, however, exceptions. All of our outstanding options provide that if termination occurred before we completed our initial public offering, the option must be exercised within 30 days of completion of the offering. As of March 31, 1999, former employees held options to purchase up to 421,700 common shares, and these options will expire 30 days after completion of this

offering. The plan further provides that the options of an optionee whose employment or consulting relationship terminates because of death must be exercised no later than 12 months after termination. It also provides that the options owned by an optionee whose employment terminates because of disability must be exercised within six months after termination. All options expire in any event on the expiration of their term.

If we merge with or into another corporation, the successor corporation may agree to assume the outstanding options or substitute equivalent options. If the successor corporation does not agree to do so the options will terminate on the completion of the merger.

The board of directors has the authority to amend or terminate the plan. Creo will seek shareholder approval of amendments to the plan if required by law to do so. No amendment will affect options already granted without the holder's consent. Shareholder approval is required to increase the number of shares reserved under the plan and to change the designation of the class of persons eligible to be granted options under the plan.

Employee Profit Sharing Plan

Creo maintains a profit sharing plan for eligible employees. Under the plan a certain percentage of annual profits may be set aside for distribution among our eligible employees. Employees become eligible to participate in the profit sharing plan after three months of continuous service. The amount set aside under the plan is determined by the compensation committee of our board of directors. In any fiscal year, that amount may not be greater than 12% of base earnings. Base earnings are defined as net income before taxes and profit sharing, less 12% of average shareholders' equity during the year. Three quarters of any amount set aside is shared equally among all eligible employees. The remaining quarter may be distributed at the discretion of the board of directors. An aggregate of $1,079,381 was distributed under the plan for the fiscal year ended September 30, 1998. Amos Michelson, our Chief Executive Officer, and Daniel Gelbart, our President, do not participate in the profit sharing plan.

401(k) Plan for U.S. resident employees

Creo maintains a 401(k) plan to provide eligible employees who are residents of the United States with a tax preferential savings and investment program. Employees become eligible to participate in the 401(k) plan on the first day of the month following the completion of three months of continuous service. Employees may elect to reduce their current compensation up to the lesser of 15% of eligible compensation or the statutorily prescribed annual limit and have the reduction contributed to the 401(k) plan. The 401(k) plan permits, but does not require, Creo to make additional matching contributions to the 401(k) plan on behalf of the eligible participants, subject to a maximum of 5% of the participant's current compensation. The contributions made by and on behalf of employees may not exceed the maximum contribution limitation currently equal to the lesser of 25% of their compensation or $30,000 per year. In the fiscal year ended September 30, 1998, Creo made an aggregate of $228,062 in matching contributions to the 401(k) plan. Contributions by employees or by Creo to the 401(k) plan and income earned on plan contributions, are generally not taxable to the employees until withdrawn, and contributions by Creo are generally deductible by Creo when made. At the direction of each participant, the trustee of the 401(k) plan invests the assets of the 401(k) plan in selected investment options.

Registered Retirement Savings Plans for Canadian resident employees

Each year Creo contributes an amount equal to 5% of the gross salary of Canadian resident employees to their individual tax-deferred registered retirement savings plans. In the fiscal year ended September 30, 1998, the aggregate amount of these contributions was $1,151,624. Contributions by Creo are deductible by Creo when made.

INTERESTS OF MANAGEMENT AND OTHERS IN CERTAIN MATERIAL TRANSACTIONS

The following are the only material transactions Creo has entered into since October 1, 1995 in which any of our directors or executive officers or any holder of 5% or more of our common shares, or any of their respective associates or affiliates, has had any material interest:

In November 1995, entities affiliated with Goldman, Sachs & Co. (the GS Group) purchased an aggregate of 2,962,962 units from Creo at a purchase price of $6.75 per unit. Each unit consisted of one common share and a warrant to purchase one common share at an exercise price of $6.75. In November 1998, the GS Group exercised all of the warrants by paying the exercise price in cash. The GS Group is a holder of more than 5% of our common shares and John Bu, a Vice President of Goldman, Sachs & Co., is a member of our board of directors.

In January 1998, Creo granted an option to purchase 10,000 common shares to Raphael Amit, the Chair of the Board of Directors. The option is exercisable at C$17.50 per common share and expires on January 1, 2003. In November 1997, we issued 6,334 common shares to Dr. Amit in consideration for consulting services rendered to Creo valued at C$110,845.

In May 1997, entities for which Brinson Partners, Inc. acts as investment adviser (the Brinson Group) purchased an aggregate of 1,595,800 common shares from Creo at a purchase price of $7.50 per share and an aggregate of 670,868 common shares from Creo shareholders at the same purchase price. The Brinson Group is a holder of more than 5% of our common shares and Thomas D. Berman, an Executive Director of Brinson Partners, Inc., is a member of our board of directors.

In May 1997, Creo sold 13,334 common shares for cash at a price of $7.50 per share to Arie Rosenfeld, who at the time was a member of Creo's board of directors. In April 1997, we granted Mr. Rosenfeld an option to purchase 12,000 common shares. The option is exercisable at $7.50 per share and expires on April 30, 2002. Mr. Rosenfeld resigned as a director in March 1999.

We have entered into indemnification agreements with our officers and directors which are described in ''Management—Indemnification of Directors and Executive Officers and Limitation of Liability.''

Investment Banking Services Agreement

In November 1995, Creo entered into an Investment Banking Services Agreement with Goldman, Sachs & Co. (Goldman), which provides Goldman a right of first refusal to provide Creo with any investment banking services we may require. The right of first refusal expires in November 2000. If Goldman declines to exercise its right or if we cannot reach agreement concerning the terms of its engagement, we may engage another investment bank on terms no less favorable to us than those last offered by Goldman. Any agreement Creo enters into with another investment bank must contain a provision giving Goldman the right to be appointed a co-managing dealer in connection with any offering of securities by Creo. Goldman has waived both its right of first refusal and its right to be appointed a co-managing dealer for this offering.

Registration Rights

Some of our shareholders have the right to require us to register their shares under the Securities Act. See ''Description of Share Capital—Registration Rights.''

PRINCIPAL AND SELLING SHAREHOLDERS

The following table presents information regarding the beneficial ownership of our common shares as of March 31, 1999, and as adjusted to reflect the sale of common shares in this offering, by:

- persons or groups of affiliated persons known by us to own more than 5% of our common shares;
- our directors;
- our Chief Executive Officer and our other four most highly compensated executive officers;
- all of our directors and executive officers as a group; and
- all Creo shareholders selling common shares in this offering.

Percentage of ownership is calculated as required by applicable United States securities laws. To our knowledge and except as otherwise indicated or provided by community property laws, the persons named in the table have sole voting and investment power over all common shares held by them. Unless otherwise indicated, the address of each of the persons named below is the address of our principal office, 3700 Gilmore Way, Burnaby, British Columbia, Canada V5G 4M1. As of March 31, 1999, there were 28,027,854 common shares outstanding.

An aggregate of 1,000,000 common shares are being sold by Creo shareholders selling common shares in this offering. ''Beneficial ownership,'' as used in the table below, means sole or shared power to vote or direct the voting of Creo common shares, or the sole or shared power to dispose, or direct a disposition, of Creo common shares. In this table, a person who has the right to acquire a common share within 60 days of March 31, 1999, has ''beneficial ownership'' of that common share. The shares that are acquirable by a person within 60 days of March 31, 1999 are deemed outstanding when computing the percentage ownership of that person, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

	Shares Beneficially Owned Prior to This Offering		Number of Shares Beneficially Owned as a Result of Options Exercisable Within 60 Days of March 31, 1999	Number of Shares Offered in this Offering	Shares Beneficially Owned After This Offering	
Beneficial Owner	**Number of Shares Outstanding**	**Percent**	**Number**	**Number**	**Number of Shares Outstanding**	**Percent**
5% Shareholders						
Entities affiliated with (1) ...... The Goldman Sachs Group, Inc. 85 Broad Street New York, New York 10004	5,925,924	21.1%	—	349,479	5,576,445	17.4%
Entities using as their investment advisor (2) .... Brinson Partners, Inc. 209 South LaSalle Street Chicago, Illinois 60604-1295	2,266,668	8.1%	—	—	2,266,668	7.1%
Business Development Bank of Canada (3) .... 505 Burrard Street Vancouver, British Columbia Canada V7X 1V3	1,750,594	6.2%	—	103,240	1,647,354	5.1%
Entities affiliated with Star Ventures (4) .... c/o SVM STAR Ventures Management GmbH Nr. 3, Possartstr. 9 Munich, Germany	1,535,490	5.5%	—	90,554	1,444,936	4.5%
Meir Barel (4) .... c/o SVM STAR Ventures Management GmbH Nr. 3, Possartstr. 9 Munich, Germany	1,535,490	5.5%	—	90,554	1,444,936	4.5%

	Shares Beneficially Owned Prior to This Offering		Number of Shares Beneficially Owned as a result of Options Exercisable Within 60 Days of March 31, 1999	Number of Shares Offered in this Offering	Shares Beneficially Owned After This Offering	
Beneficial Owner	Number of Shares Outstanding	Percent	Number	Number	Number of Shares Outstanding	Percent
5% Shareholders (continued)						
Entities affiliated with (5) Evergreen Canada Israel Investments Ltd.	1,490,682	5.3%	38,198	85,659	1,405,023	4.4%
Executive Officers and Directors						
Amos Michelson	1,846,658	6.6%	—	—	1,846,658	5.8%
Daniel Gelbart (6)	3,459,332	12.3%	—	204,012	3,255,320	10.2%
Raphael Amit	63,000	*	20,000	—	63,000	*
David A. Bennett (3)	1,750,594	6.2%	—	103,240	1,647,354	5.1%
Thomas D. Berman (2)	2,266,668	8.1%	—	—	2,266,668	7.1%
John Bu (1)	5,925,924	21.1%	—	349,479	5,576,445	17.4%
Douglas H. Richardson	52,238	*	35,404	—	52,238	*
Kenneth A. Spencer (7)	1,720,074	6.1%	—	101,441	1,618,633	5.1%
Michael D. Ball	27,584	*	25,184	—	27,584	*
Kevin M. Joyce	38,762	*	38,762	—	38,762	*
Boudewijn P. Neijens	50,802	*	36,302	—	50,802	*
All directors and officers as a group (18 individuals)	17,816,244	62.1%	675,378	758,172	17,058,072	52.2%
Other						
K.A. Spencer Investments Ltd. 7432 Tamarind Drive Vancouver, British Columbia Canada V55 329	200,000	*	101,441	101,441	98,519	*
The Gilde IT Fund B.V. Newtenlaan 91 3508 AB Utrecht The Netherlands	866,942	3.1%	—	51,127	815,815	2.5%
HarbourVest International Private Equity Partners II—Direct Fund L.P. One Financial Centre, 44th Floor Boston, Massachusetts 02111	747,014	2.7%	—	—	747,014	2.3%
David Pritchard (8) 1119 Lenora Road Bowen Island, British Columbia Canada VON 1D0	154,518	*	—	9,113	145,405	*
Rachel Mayer	145,200	*	—	8,563	136,637	*
Unicycle Trading Company, L.P. 11 Galgaley Haplada Street P.O. Box 12600 Herzlia, Pituach Israel 46733	73,616	*	—	4,342	69,274	*
Interstock Anstalt für Vermögens und Trust Verwaltungen Herrengasse 21 Postfach 339 9470 Vaduz Lichtenstein	17,516	*	—	1,033	16,483	*

* less than 1%.

(1) The number of shares beneficially owned prior to this offering by entities affiliated with the Goldman Sachs Group, Inc. consists of:

- 3,718,096 common shares beneficially owned by GS Capital Partners II, L.P.;
- 1,478,096 common shares held by GS Capital Partners II Offshore, L.P.;
- 137,140 common shares held by Goldman, Sachs & Co. Verwaltungs GmbH;
- 313,764 common shares held by Bridge Street Fund 1995, L.P.; and
- 278,828 common shares held by Stone Street Fund 1995, L.P.

John Bu, a director of Creo, is a Vice President of Goldman, Sachs & Co. Mr. Bu disclaims any beneficial interest in the common shares held by entities affiliated with the Goldman Sachs Group, Inc.

(2) Brinson Partners, Inc. is the investment adviser to the Virginia Retirement System, which beneficially owns 2,000,000 common shares, BVCF III L.P., which beneficially owns 229,276 common shares and the Brinson MAP Venture Capital Fund III, which beneficially owns 37,392 Common Shares. Brinson Partners, Inc. disclaims any beneficial interest in these common shares. Brinson Partners, Inc. disclaims any beneficial interest in these common shares. Thomas D. Berman, a director of Creo, is an Executive Director of Brinson Partners, Inc. Mr. Berman disclaims any beneficial interest in these common shares.

(3) David A. Bennett, a director of Creo, is a Managing Director of the Business Development Bank of Canada. Mr. Bennett disclaims any beneficial interest in these common shares.

(4) The number of shares beneficially owned prior to this offering by entities affiliated with STAR Ventures include:

- 275,374 common shares held by SVE STAR Ventures Enterprises No. II, a German Civil Law Partnership (with limitation of liability) (SVE II);
- 738,954 common shares held by SVE STAR Ventures Enterprises No. III, a German Civil Law Partnership (with limitation of liability) (SVE III);
- 61,214 common shares held by SVE STAR Ventures Enterprises No. IIIA, a German Civil Law Partnership (with limitation of liability) (SVE IIIA);
- and 130,614 common shares held by SVM STAR Ventures Management GmbH Nr. 3 (STAR Germany), which also has the sole power to vote or direct the vote, and the sole power to dispose or direct the disposition of, the common shares held by SVE II, SVE III and SVE IIIA. Also includes
- 197,600 common shares held by D.G. Dan-Gal Ltd. (Dan-Gal); and
- 131,734 common shares owned by STAR Management of Investments (1993) Limited Partnership (STAR Israel Partnership).

SVM STAR Ventures Capital Management Ltd. (STAR Israel) has the sole power to vote or direct the vote, and the sole power to dispose or direct the disposition of the common shares held by Dan-Gal and STAR Israel Partnership.

Meir Barel has the sole power to direct the actions of STAR Germany and STAR Israel. Dr. Barel disclaims beneficial ownership of the common shares held by any of the entities mentioned, except for any pecuniary interest in the common shares.

(5) The number of shares beneficially owned prior to this offering by entities affiliated with Evergreen Canada-Israel Investments Ltd. consists of:

- 524,630 common shares and 14,100 common shares issuable upon exercise of options exercisable within 60 days after March 31, 1999 beneficially owned by Evergreen International Investments N.V.;
- 227,862 common shares and 9,404 common shares issuable upon exercise of options exercisable within 60 days after March 31, 1999 beneficially owned by Evergreen Capital Markets Ltd.;
- 159,200 common shares beneficially owned by Periscope I Fund LP;
- 40,800 common shares beneficially owned by AB Shaked Lavan Ltd.:
- 24,866 common shares and 594 common shares issuable upon exercise of options exercisable within 60 days after March 31, 1999 beneficially owned by Evergreen Canada-Israel Management Ltd.; and

- 475,126 common shares and 14,100 common shares issuable upon exercise of options exercisable within 60 days after March 31, 1999 beneficially owned by Yarok AZ Ltd.

Evergreen Canada-Israel Investments Ltd. disclaims any beneficial interest in the common shares owned by Yarok AZ Ltd., Evergreen Capital Markets Ltd., and Periscope I Fund LP.

(6) The number of shares beneficially owned prior to this offering by Daniel Gelbart include 3,174,800 common shares owned directly and 139,332 common shares owned indirectly by Mr. Gelbart, and 145,200 common shares held by Rachel Mayer, over which Mr. Gelbart exercises voting power. Mr. Gelbart disclaims any beneficial interest in the common shares held by Rachel Mayer.

(7) The number of shares beneficially owned prior to this offering by Kenneth A. Spencer consist of:

- 200,000 common shares beneficially owned by K.A. Spencer Investments Ltd.;
- 1,080,294 common shares beneficially owned by Velo Investments Ltd.; and
- 439,780 common shares beneficially owned by Mr. Spencer.

Mr. Spencer, a director of Creo, is the President of K.A. Spencer Investments Ltd. and Velo Investments Ltd.

(8) David Pritchard was Creo's Chief Financial Officer from April 1989 to July 1995. From July 1995 to December 1996, Mr. Pritchard was Creo's Chief Operating Officer.

DESCRIPTION OF SHARE CAPITAL

Creo is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares, without par value. The following is a summary of the principal characteristics of the common shares and the preferred shares. It is not complete and may not contain all the information you should consider before investing in our common shares.

Common Shares

At March 31, 1999, there were 441 holders of record of the 28,027,854 outstanding common shares. Each common share carries one vote on all matters to be voted on by shareholders. There are no limitations on the rights of non-resident or foreign owners of our common shares to hold or vote their shares. After satisfying any preferences conferred on the holders of any outstanding preferred shares, the holders of common shares are entitled to share ratably in:

- any dividends declared by our board of directors; and
- all assets remaining after our liabilities have been discharged, if Creo is liquidated, dissolved or wound up.

Our common shares do not carry pre-emptive rights or rights of conversion into any other securities. All outstanding common shares are fully paid and non-assessable, and the common shares to be issued in this offering will also be fully paid and non-assessable.

Preferred Shares

Creo's board of directors is authorized, without further action by the shareholders, to issue preferred shares in one or more series. The preferred shares as a class are entitled to priority over the common shares if:

- our board of directors decides to pay any dividends; and
- Creo is dissolved, liquidated or wound up, and capital is returned to the shareholders.

If a series of preferred shares is to be issued, the board of directors has broad discretion to determine the rights to be attached to the shares in the series. For example, it can decide:

- the number of shares in the series;
- whether those shares are to have voting rights, and if so, whether the voting rights are to be full or limited voting rights;
- what dividends are to be paid on those shares and whether those dividends are to be cumulative; and
- whether the shares in the series are to be convertible into or exchangeable for other securities and, if so, what the conversion terms will be.

The net tangible book value of our common shares could be diluted if we issue further common shares or preferred shares, and the voting power of the existing holders of our common shares would be diluted if we were to issue additional common shares or preferred shares having the right to vote.

We have not issued preferred shares in the past and we have no current plan to issue any.

Modifications, Subdivisions and Consolidations

Under the Canada Business Corporations Act, amendment of the rights of holders of a class of shares, including common shares, requires the approval of not less than two-thirds of the votes cast by the holders of

those shares voting separately as a class at a special meeting. The Canada Business Corporations Act also gives these holders the right to dissent from the amendment and to require us to pay them the then fair value of their shares.

Warrants

In May 1997 we issued warrants to purchase 24,598 common shares at an exercise price of $9.38 per share. These warrants expire on June 2, 2002. They are exercisable for common shares on a net exercise basis without tender of cash.

Registration Rights

Creo is party to a shareholders agreement with shareholders who together hold an aggregate of 24,824,238 common shares. The shareholders agreement provides that if Creo proposes to register any of its securities for distribution to the public under the securities laws of the United States or Canada, these shareholders may demand the right to ''piggy-back'' onto Creo's registration a proportion of their common shares. Creo must use reasonable commercial efforts to register common shares of each shareholder who makes this demand. Creo must pay all offering expenses (excluding underwriting fees and commissions payable in connection with the sale of these shareholders' shares) in connection with the ''piggy-back'' registration.

In addition to the ''piggy-back'' registration rights described above, parties to the shareholders agreement who hold at least 3% of the outstanding common shares, may demand that Creo register all or a part of the shares provided that they have a market value of at least C$5,000,000. If a demand of this kind is made, Creo must notify the other parties to the shareholders agreement and use reasonable commercial efforts to register the common shares held by each party who makes such a demand. Creo must pay all offering expenses (excluding underwriting fees and commissions payable in connection with the sale of these shareholders' shares) in connection with the registration. These demand registration rights may be exercised at any time up to the sixth anniversary of our initial public offering.

Transfer Agent and Registrar

The Transfer Agent and Registrar for our common shares in Canada is Montreal Trust Company of Canada at its principal offices in Toronto, Ontario and Vancouver, British Columbia, and in the United States is the American Securities Transfer & Trust, Inc. at its principal office in Denver, Colorado.

UNDERWRITING

Under the terms and conditions stated in the underwriting agreement dated the date of this prospectus, each of the underwriters named below has agreed to purchase, and Creo and the selling shareholders have agreed to sell to these underwriters the respective number of common shares listed opposite the name of the underwriter below:

Name	Number of Common Shares
Salomon Smith Barney Inc.	2,200,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	1,760,000
RBC Dominion Securities Inc.	440,000
CIBC World Markets Corp.	75,000
Deutsche Bank Securities Inc.	75,000
Morgan Stanley & Co. Incorporated	75,000
Prudential Securities Incorporated	75,000
Gabelli & Company, Inc.	50,000
McDonald Investments Inc., a KeyCorp Company	50,000
Needham & Company, Inc.	50,000
The Robinson-Humphrey Company, LLC	50,000
U.S. Bancorp Piper Jaffray Inc.	50,000
C.E. Unterberg, Towbin	50,000
Total	5,000,000

The underwriting agreement provides that the underwriters are not required to purchase the common shares included in this offering without the approval of legal matters by counsel and the fulfillment of other conditions specified in the underwriting agreement. The underwriters are obligated to purchase all of the common shares offered in this offering (other than those covered by the over-allotment option described below) if they purchase any common shares.

The offering is being made concurrently in the Canadian provinces of British Columbia, Manitoba and Ontario and in the United States. Each of the underwriters that is not registered as a broker-dealer under the U.S. Securities Exchange Act has agreed that, in connection with the offering of the common shares and with specific exceptions, it will not offer or sell any common shares in, or to persons who are nationals or residents of, the United States other than through one of its United States registered broker-dealer affiliates. Offers and sales in Canada or to Canadian persons will be made by the underwriters or their affiliates that are investment dealers or brokers duly registered under the applicable laws of the province of Canada in which the offer or sale is made through or with a prospectus filed with the applicable Canadian securities regulatory authorities.

In the United States offering, the underwriters, represented by Salomon Smith Barney Inc., Merrill Lynch & Co., and RBC Dominion Securities Corporation, initially propose to offer some of the common shares directly to the public at the public offering price indicated on the cover page of this prospectus, and some of the common shares to securities dealers at the public offering price less a concession not exceeding $0.63 per common share. The underwriters may allow, and the securities dealers may reallow, a concession not exceeding $0.10 per common share to brokers and dealers. After the initial offering of the common shares to the public, the public offering price and other selling terms may from time to time be varied by the representatives. The representatives have advised Creo and the selling shareholders that the underwriters do not intend to confirm any sales to any accounts over which they exercise discretionary authority.

The selling shareholders have granted the underwriters an option, exercisable for 30 days after the date of this prospectus, to purchase up to an aggregate of 750,000 additional common shares at the public offering

price, less the underwriting discount. The underwriters may exercise this option solely to cover over-allotments, if any, in connection with this offering. If the underwriters exercise the option, each of them will be obligated to purchase a number of additional shares approximately proportionate to the underwriter's initial commitment unless released from doing so by the terms of the underwriting agreement.

Creo, each of its officers and directors, and holders of significant amounts of Creo common shares and substantially all of the non-Canadian holders of its common shares have agreed that for a period of 180 days after the date of this prospectus, they will not, without the prior written consent of Salomon Smith Barney Inc., sell, dispose of or hedge any common shares or any securities of Creo convertible into or exchangeable for common shares. Salomon Smith Barney Inc. may, in its sole discretion, release any of the securities bound by the lock-up agreements at any time without notice.

At Creo's request, the underwriters have reserved up to 370,000 common shares for sale, at the initial public offering price, to employees, directors and other persons associated with Creo. The number of common shares available for sale to the general public in the offering will be reduced as these persons purchase the reserved shares. Creo has agreed to indemnify the underwriters against liabilities and expenses arising in connection with the sales of these reserved common shares.

Prior to this offering, there has been no public market for the common shares. Consequently, the initial public offering price for the common shares was determined by negotiations between Creo, the selling shareholders and the representatives. Among the factors considered in determining the initial public offering price were Creo's record of operations, its current financial condition, its future prospects, its markets, the economic conditions in and future prospects for the industry in which Creo competes, Creo's management, and currently prevailing general conditions in the equity securities markets, including current market valuations of publicly traded companies considered comparable to Creo. Creo cannot assure you, however, that the prices at which the common shares will sell in the public market after this offering will not be lower than the price at which they are sold by the underwriters or that an active trading market in the common shares will develop and continue after the offering.

The common shares have been approved for quotation on the Nasdaq National Market under the symbol ''CREO'' and The Toronto Stock Exchange has conditionally approved the listing of the common shares under the symbol ''CEC.'' The listing on The Toronto Stock Exchange is subject to Creo's fulfilling all of the requirements of The Toronto Stock Exchange, including the distribution of the common shares to a minimum number of public shareholders.

The following table shows the underwriting discounts and commissions to be paid to the underwriters by Creo and the selling shareholders in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional common shares.

	Paid by Creo		Paid by Selling Shareholders	
	No Exercise	**Full Exercise**	**No Exercise**	**Full Exercise**
Per share	$ 1.05	$ 1.05	$ 1.05	$ 1.05
Total	$4,200,000	$4,200,000	$1,050,000	$1,837,500

The expenses of this offering, estimated to be $850,000, will be paid by Creo on its own behalf and on behalf of the selling shareholders.

In connection with the offering, Salomon Smith Barney Inc. on behalf of the underwriters, may over-allot, or engage in syndicate covering transactions, stabilizing transactions and penalty bids. Over-allotment involves syndicate sales of common shares in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the

common shares in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of bids or purchases of common shares made to prevent or retard a decline in the market price of the common shares while the offering is in progress. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Salomon Smith Barney Inc., in covering syndicate short positions or making stabilizing purchases, repurchases shares originally sold by that syndicate member. These activities may cause the price of the common shares to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be effected on the Nasdaq National Market or in the over-the-counter market, or otherwise and, if commenced, may be discontinued at any time.

In accordance with a policy statement of the Ontario Securities Commission, the underwriters in Canada may not, throughout the period of distribution, bid for or purchase common shares. Exceptions, however, exist where the bid or purchase is not made to create the appearance of active trading in, or raising the price of, the common shares. These exceptions include a bid or purchase permitted under the by-laws and rules of The Toronto Stock Exchange relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Creo has been advised that in connection with the offering and pursuant to the first exception mentioned above, the underwriters may over-allot or effect transactions which stabilize or maintain the market price of the common shares at levels other than those which might otherwise prevail on the open market. These transactions, if commenced, may be discontinued at any time.

Creo and the selling shareholders have agreed to indemnify the underwriters against the liabilities and expenses listed in the underwriting agreement, including liabilities under the Securities Act and Canadian provincial securities legislation, or to contribute to payments the underwriters may be required to make for any of those liabilities.

Initial sales of the common shares offered in the United States will be settled in U.S. dollars and initial sales of common shares offered in Canada will be settled in Canadian dollars. Subsequent trading of common shares effected on the Nasdaq National Market will be settled in U.S. dollars and subsequent trading of common shares effected on The Toronto Stock Exchange will be settled in Canadian dollars, in each case in accordance with the normal settlement practices of those markets.

SHARES ELIGIBLE FOR FUTURE SALE

The sale of substantial numbers of common shares in the public market, or the possibility of this sale, could adversely affect prevailing market prices for our common shares.

Upon completion of the offering based on information as of March 31, 1999:

- a total of 32,027,854 of our common shares will be outstanding; and
- options to purchase a total of 4,595,232 common shares and warrants to purchase a total of 24,598 common shares will be outstanding.

All of the 5,000,000 common shares sold in the offering in the United States and Canada will be freely tradable without restriction under either the Securities Act (except by ''affiliates'' as defined in Rule 144 under the Securities Act) or applicable Canadian securities laws (except by ''control persons'' as defined under these laws).

For the reasons given below, and subject to the restrictions set forth below, we believe that the following restricted common shares and common shares issuable upon exercise of options or warrants will be eligible for resale in the public market at the following times and by the following persons:

	Eligibility for Sale in the Public Market	
	Restricted Shares	Shares Underlying Options and Warrants
On the date of this prospectus	13,636	6,018
181 days after the date of this prospectus	26,581,316	4,602,816
After 181 days after the date of this prospectus	432,902	10,996

Each of our officers and directors and holders of significant amounts of Creo common shares and substantially all of the non-Canadian holders of our common shares have agreed with Salomon Smith Barney Inc. that they will not dispose of or hedge any common shares for 180 days following the date of this prospectus.

Canadian Resale Restrictions

Under applicable Canadian securities laws, all of the common shares or common shares issuable upon exercise of options held by Canadian residents may not be sold or otherwise disposed of for value, except through or with a prospectus, a discretionary exemption or a statutory exemption available only in specific limited circumstances, until Creo has been a reporting issuer for at least 12 months in the province in which the shareholder or optionee resides. Creo will become a reporting issuer in the provinces of British Columbia, Manitoba and Ontario when it files this prospectus with the securities regulatory authorities of those provinces and when those authorities issue receipts for the prospectus. We expect that the receipts will be issued on or about the date of this prospectus. We are applying to the regulatory authorities in those Canadian provinces in which holders of our common shares or options reside for a discretionary exemption that would permit sales of their shares after 6 months from the date of the receipts for this prospectus. If this discretionary exemption is not granted, we intend to take other steps to allow the common shares to be sold after Creo has been a reporting issuer for six months.

If the discretionary exemption is not granted or other steps taken to allow the sale of our common shares are unsuccessful, 12,251,377 common shares will be eligible for resale one year after the date of this prospectus.

Other Resale Restrictions

As a result of the lock-up agreements and the provisions of Rule 144 under the Securities Act, common shares and common shares issuable upon exercise of options held by non-Canadian residents will be available for sale in the public market in the United States, subject in some cases to Rule 144 volume limitations.

In general, under Rule 144, as in effect on the date of this prospectus, any person (including an affiliate of Creo) who has beneficially owned common shares for at least one year will be entitled to sell, in any three-month period, a number of shares that (together with common shares with which the person's shares must be aggregated) does not exceed the greater of:

- 1% of the then outstanding common shares (approximately 320,279 shares immediately after the offering); and
- the average weekly trading volume of the common shares on the Nasdaq National Market during the four calendar weeks immediately preceding the date on which the sale is made.

Sales of restricted securities under Rule 144 must also satisfy requirements relating to manner of sale, notice and availability of current public information about Creo. Affiliates of Creo must also comply with the restrictions and requirements of Rule 144, other than the one-year holding period requirement, in order to sell common shares which are not restricted securities.

We intend to file with the SEC a registration statement on Form S-8/S-3 within approximately 180 days after the date of this prospectus. The S-8/S-3 registration statement will allow holders of common shares who are residents of the United States and countries other than Canada to resell common shares issued under equity incentive arrangements, common shares issued in connection with option exercises and common shares issued under our 1996 Stock Option Plan.

RISK FACTORS

Investing in our common shares involves a high degree of risk. You should carefully consider the risks described below as well as all the other information in this prospectus—including our financial statements and related notes—before investing in our common shares. Our business, operating results and financial condition could be seriously harmed due to any of the following risks. The trading price of our common shares could decline due to any of these risks, and you could lose all or part of your investment.

If our computer-to-plate solutions do not gain broad market acceptance among small and mid-size printers, our revenues will be flat or will decline.

Adoption of computer-to-plate technology requires commercial printers to make significant and costly changes to their prepress operations. To date, our computer-to-plate solutions have been adopted principally by large, multi-plant commercial printers. Small and mid-size printers may be slower to adopt our computer-to-plate solutions because of the cost or because of the reluctance of these printers to interfere with existing relationships with other suppliers of prepress equipment. If these small and mid-size printers do not adopt our computer-to-plate solutions, our revenues will be flat or will decline.

If our joint venture with Heidelberg is unsuccessful or is terminated, our operating costs will increase if we are not able to rechannel our resources quickly enough, and our revenues will also decline.

Our operating and financial performance depends substantially on our joint venture with Heidelberg. Since we have a relationship with Heidelberg, we have not developed for ourselves the manufacturing, marketing, distribution and customer service and support capabilities that Heidelberg contributes to the joint venture. For example, we depend on Heidelberg's:

- manufacturing capabilities for most of our 4-page and 8-page computer-to-plate output devices;
- worldwide marketing and distribution networks for the sale of our products under the joint venture;
- worldwide service and customer support organization for service support outside North America; and
- product development funding for products to be commercialized by the joint venture.

If the joint venture is unsuccessful in these areas, or if it were to terminate, we would be forced to develop for ourselves additional manufacturing, marketing, distribution and customer service and support capabilities to replace those currently provided by Heidelberg. Developing these capabilities would increase our operating costs and, if we were unable to develop them quickly enough, our revenues would decline.

For more information about our joint venture with Heidelberg, see ''Business—Our Joint Venture with Heidelberg.''

We must continue to overcome significant and increasing competition in the digital prepress market in order to continue our growth and profitability.

Direct competition among providers of digital prepress solutions is likely to increase as the demand for these solutions increases. Increased competition is likely to result in price reductions, reduced gross margins, longer sales cycles and loss of market share, any of which would seriously harm our business and results of operations. We cannot be certain that we will be able to compete successfully against current or future competitors or that competitive pressures will not seriously harm our business.

We face intense direct competition from other manufacturers of computer-to-plate products including Scitex Corporation Ltd., Agfa-Gevaert N.V., Dainippon Screen Mfg. Co. Ltd., Barco N.V. and Cymbolic Sciences International, Inc. Many of our competitors are substantially larger than we are and have significantly greater financial, sales and marketing, technical, manufacturing and other resources and more established

distribution channels. These competitors may be able to respond more rapidly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of their products than we can. Furthermore, some of our competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties in the industry, such as plate suppliers and press manufacturers, to increase their ability to rapidly gain market share by addressing the needs of our prospective customers.

We expect that, as industry standards and customer requirements evolve, our competitors will continue to improve the performance of their current products and introduce new products or new technologies that may supplant or provide lower cost alternatives to our products. Successful new product introductions or enhancements by our competitors could reduce the sales or market acceptance of our products and services, perpetuate intense price competition or make our products obsolete. For example, recent innovations in xerographic technology could result in xerography becoming an economic alternative to offset printing for very short print runs. To be competitive, we must continue to invest significant resources in research and development, sales and marketing and customer support. We cannot be sure that we will have sufficient resources to make those investments or that we will be able to make the technological advances necessary to be competitive. As a result, we may not be able to compete effectively against our competitors.

You should not rely on our past results to predict our future performance because our operating results may fluctuate.

Our past revenue growth rates and other operating results may not be accurate indicators of our future performance. In addition, our operating expenses, which include product development, sales and marketing and general and administration expenses, are relatively fixed in the short term. If our revenue is lower than we expect because we sell fewer computer-to-plate products than we anticipate or if there is a delay in the release of new products, we may not be able to quickly reduce our operating expenses in response. Our operating results could be affected in particular by:

- changes in the capital budgets of our customers, which may cause seasonal or other fluctuations in the volume and timing of orders for our products;
- the length of our product sales cycle, especially for our higher priced and more complex products; and
- fluctuations in the performance of the Heidelberg joint venture, which could make it difficult for us to predict and control our expenses associated with the joint venture operations.

Our operating results have fluctuated in the past, and it is likely that in some future quarter our operating results may be below the expectations of public market analysts and investors and, as a result, the price of our common shares may fall.

If we are unable to maintain our supply of key product components that are produced by a limited number of suppliers, we will not be able to deliver our products to our customers on a timely basis.

We depend on other companies for some of the key components of our products, including, most significantly, our thermal imaging heads. Although we have not experienced problems with the supply of these components in the past, we may in the future, and we may need to find additional suppliers. Because there is a limited number of potential suppliers of the components, it may be difficult for us to find qualified suppliers. In addition, because some of these components are complex, lead times for production can vary significantly and, as a result, it may be difficult to replenish our inventories of these components. A failure to maintain a reliable supply of key components could cause our operating results to suffer.

Our products may have unforeseen defects, which could harm our reputation, impede market acceptance of our products and negatively impact our operating results.

Our products and some of the key components supplied to us by other companies incorporate complex imaging technology, software and hardware. Despite rigorous testing, undetected errors, defects or bugs may cause failures at any time. We may not be able to sell our products if they have reliability, quality or compatibility problems. Moreover, errors, defects or bugs can result in additional development costs, diversion of technical and other resources from our other development efforts, warranty claims by our customers or others against us, or the loss of credibility with our current and prospective customers.

In late 1997, a number of the thermal imaging heads installed in our computer-to-plate output devices failed as a result of environmental conditions prevailing at some of our customers' sites. This resulted in a design change to all of our thermal heads and delayed the shipment of our computer-to-plate output devices for three months. Although this particular incident did not result in material losses for Creo, a similar incident in the future might hurt our business because of the loss of customer sales if we were unable to correct the problem.

Our agreements with our customers typically contain provisions designed to limit our product liability exposure, but these may not be effective in all circumstances. We carry product liability insurance that we consider adequate, but a successful claim against us for an amount exceeding our policy limits would force us to use our own resources to pay the claim, which would result in a reduction in our working capital available for other uses, as well as an increase in our expenses and a negative effect on our results of operations.

If we are not able to continue to establish and maintain relationships with plate suppliers and press manufacturers, our ability to grow our business will suffer.

Plate suppliers and press manufacturers assist us in developing our technology, facilitating broad market acceptance of our products, and enhancing our sales, marketing and distribution capabilities. For example, through our joint venture, Heidelberg provides us with significant sales, marketing and distribution capabilities for our products, as well as research and development resources. In addition, our strategic business alliances with suppliers of printing plates have allowed us to enhance the compatibility of our technology with those suppliers' printing plates. If we are unable to maintain these existing strategic alliances and to establish additional relationships, we would lose these additional capabilities, our products might be less attractive to our potential customers and our operating results could be negatively affected.

Adapting to new technologies, such as digital offset printing technology and to changing customer preferences, such as greater customization of print jobs, will cause us to incur substantial costs. If we are unable to adapt to current and future changes in technology and customer preferences, our products and services may become obsolete.

The digital prepress market is characterized by rapid technological change, evolving industry standards, frequent new product introductions and enhancements, and changing customer demands. Accordingly, our future success will depend on our ability to invest significantly in research and development, to develop, introduce and support new products and enhancements on a timely basis and to gain market acceptance of our products. New products can require significant time and investment to achieve profitability. Our efforts to introduce new products or services may not be successful or profitable. If we are unable to introduce new products and services that our customers want, our revenues and other operating results will be negatively affected.

A number of companies, including Creo, are currently working with press manufacturers to develop products that use next generation digital offset printing technology as a digital prepress solution. Although the number of digital offset printing products currently available is limited, it is likely that new digital offset printing products will be introduced. Although we expect that various digital prepress technologies, including computer-to-plate technology, will co-exist for the foreseeable future, digital offset printing products could in

time replace or provide lower-cost alternatives to our existing computer-to-plate solutions, causing them to become obsolete. In addition, recent innovations in xerography, the printing process used in most office copiers, could make it a more economic alternative to offset printing for short print runs.

Although our products are designed to be compatible with most major media sources, file formats, computing platforms, operating systems and databases, future enhancements or upgrades of these formats or systems could result in incompatibility with our products. If this were to happen, we would have to redesign and reconfigure our products to ensure continuing compatibility, which could delay product introductions and could increase our costs.

If outside funding of our research and product development activities were to decline, we would be forced to reduce those activities or to divert our own resources away from other uses in order to fund our research and development activities.

Our investment in research and development has been subsidized in part by funding received from plate suppliers, press manufacturers and our customers in connection with specific product development initiatives undertaken at their request. We also receive investment tax credits for our research and development activities. During fiscal 1998, Heidelberg, other press and plate suppliers and Canadian Government investment tax credits provided research and development funding equal to 21.5%, 22.8% and 19.5% of our gross research and development expenditure for the period. Although we do not currently believe that this outside funding will be reduced or eliminated, it could be reduced or eliminated in the future, as a result of changes in our relationships with press and plate suppliers or changes in Canadian Government policy. If these outside funding sources were to reduce or eliminate the amount of funding available to us, we would be required to use our own working capital to fund our research and development activities, or we would be required to reduce those activities. Our ability to develop new products and technologies is an important factor in our ability to remain competitive. If we were unable to fund research and development activities at levels sufficient to develop our products and technology, it may be difficult for us to remain competitive. If we are required to divert our own funds from other uses to fund our research and development activities, the reduction in funding would cause those other aspects of our business to suffer.

If we are not able to retain our Chief Executive Officer, Amos Michelson, our President and chief technologist, Daniel Gelbart, and other key personnel, our business would lose its key executive leadership and our ability to maintain our competitive position would be jeopardized.

Our ability to maintain our competitive position depends to a significant extent on the efforts and abilities of our senior management, particularly Amos Michelson, our Chief Executive Officer, and Dan Gelbart, our President and chief technologist. We do not have employment agreements with either of these individuals or any other key executives. Their managerial, technical and other services would be difficult to replace, and if we lose the services of one or more of our executive officers, or if one or more of them decide to join a competitor or otherwise compete directly or indirectly with us, our business would be seriously harmed. The loss of their services would jeopardize our ability to maintain our competitive position. In addition, we do not have ''key person'' life insurance policies covering any of our employees.

If we are unable to attract and retain sufficient numbers of highly skilled technical, sales and marketing and other personnel, our operations and financial results would suffer.

Our ability to develop, market and sell our products and services and to maintain our competitive position depends on our ability to attract, retain and motivate highly skilled technical, sales and marketing and other personnel. We plan to substantially expand our sales and marketing efforts, particularly in North America, in order to increase market awareness and sales both of joint venture products and products not covered by the joint venture. We also plan to increase our research and development personnel to develop new products, and to increase our customer service and support personnel in North America to support the growth of our business. While we have so far been successful in doing this, there is a limited number of people with the necessary

technical skills and understanding, and competition for their services is intense. If we fail to recruit or retain these personnel, our ability to develop new products, obtain new customers and provide an acceptable level of customer service could suffer.

Our intellectual property and proprietary technology, which includes 30 patents and 39 patent applications, is important to the continued success of our business. Our failure to protect this proprietary technology may significantly impair our competitive position.

Our success and ability to compete depend to a significant extent on our proprietary technology since that is how we attempt to keep others from copying the innovations that are central to our existing and future products. We currently rely on copyright and trademark laws, trade secrets, confidentiality procedures, contractual provisions and patents to protect our proprietary technology. We may have to engage in litigation in order to protect our patents and other intellectual property rights, or to determine the validity or scope of the proprietary rights of others. This kind of litigation can be time-consuming and expensive, regardless of whether we win or lose. Because it is critical to our success that we are able to prevent competitors from copying our innovations, we intend to continue to seek patent and trade secret protection for our technologies. The process of seeking patent protection can be long and expensive, and we cannot be certain that any currently pending or future applications will actually result in issued patents, or that, even if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to us. Furthermore, others may develop technologies that are similar or superior to our technology or design around the patents we own. We also rely on trade secret protection for our technology, in part through confidentiality agreements with our employees, consultants and third parties. However, these agreements may be breached and we may not have adequate remedies for any breach. In any case, others may come to know about our trade secrets through a variety of methods. In addition, the laws of some territories in which we manufacture or sell our products may not protect our intellectual property rights to the same extent as do the laws of Canada and the United States.

Despite our efforts, our intellectual property rights, particularly our existing or future patents, may be invalidated, circumvented, challenged, infringed or required to be licensed to others. Furthermore, others may develop technologies that are similar or superior to our technology, duplicate or reverse engineer our technology or design around the patents owned or licensed by us. We cannot be sure that the steps we take to protect our technology will prevent misappropriation or infringement. If we fail to protect our technology so that others may copy or use it, we would be less able to differentiate our products and our revenues will decline.

If others claim that our products infringe upon their intellectual property rights, we may be forced to seek expensive licenses, reengineer our products, engage in expensive and time-consuming litigation or stop marketing the challenged products.

Litigation regarding intellectual property rights is common in the technology industry, and for this reason we expect that third-party infringement claims involving technologies may increase. If an infringement claim is filed against us, we may be prevented from using certain technologies and may incur significant costs to resolve the claim.

From time to time we receive letters claiming that we are infringing the intellectual rights of others, and we may from time to time engage in disputes over rights concerning intellectual property. Although we believe that our intellectual property rights are sufficient to allow us to market our existing products without incurring liability to third parties, we cannot assure you that our products and services do not infringe on the intellectual property rights of third parties.

We could incur substantial costs in defending ourselves and our customers against infringement claims. Litigation could also adversely affect sales of the challenged product or technology and divert the efforts of our management and technical personnel. In the event of a claim of infringement, we may be required to obtain one

or more licenses from third parties. We cannot assure you that we or our customers could obtain necessary licenses from third parties at a reasonable cost or at all. If we fail to obtain a license where one is required, we could incur substantial liabilities and be forced to suspend the marketing of the challenged products.

If we are not able to manage our growth effectively, we may not be able to maintain or improve our current level of profitability.

We have experienced rapid growth, and plan to continue to expand our operations. This expansion is expensive and places a significant strain on our personnel and other resources. For example, over the last three years our revenue and headcount have grown significantly as shown below:

	Revenue (in millions)	Headcount
Year ended and as at September 30, 1996	$48	586
Year ended and as at September 30, 1997	$96	797
Year ended and as at September 30, 1998	$129	1,033
Six months ended and as at March 31, 1999	$78	1,237

To manage our expanded operations effectively, we will need to further improve our operational, financial and management systems and successfully hire, train, motivate and manage our employees. We may not be able to manage our growth effectively, which would have a negative effect on our profitability.

Our efforts to increase our presence in markets outside of North America may result in losses and may not be successful in generating additional revenue.

The proportion of our revenue derived from operations outside North America has grown from approximately 28.0% during the year ended September 30, 1996 to approximately 41.7% during the year ended September 30, 1998. In the six months ended March 31, 1999, foreign operations accounted for approximately 32.9% of our revenue. We are attempting to increase our presence in markets outside North America. This requires considerable management time and attention, and a commitment of financial resources. Our efforts may not be successful to the degree that we expect. Additionally, our international operations are influenced by numerous inherent potential risks, including:

- unexpected changes in regulatory requirements, tax rates or tariffs that make our products and services more expensive and therefore less attractive to potential customers;
- challenges in staffing and managing foreign operations, employment laws and practices in foreign countries, any of which could increase the cost and reduce the efficiency of operating in foreign countries;
- technology standards that differ from those on which our products are based, which could require expensive redesign and retention of personnel familiar with those standards;
- longer accounts receivable payment cycles and possible difficulties in collecting payments which may increase our operating costs and hurt our financial performance;
- political and economic instability; and
- fluctuations in currency exchange rates and the imposition of currency exchange controls. Because substantially all of our revenue is received in U.S. dollars, appreciation of the U.S. dollar against the currencies used by our potential customers would make our products more expensive and therefore less attractive to those potential customers.

Any of these factors could harm our international operations and negatively affect our financial performance. For example, our sales in Japan for the year ended September 30, 1997 were $9.9 million. Due primarily to the economic downturn in Japan, our sales in Japan dropped to $5.3 million for the year ended September 30, 1998. Our business would suffer if similar economic conditions were to occur again, in Japan or elsewhere.

Fluctuations in the values of Canadian dollars and Belgian francs will cause translation gains and losses. These fluctuations may cause our expenses to increase to levels greater than we anticipate.

Although substantially all of our revenue is received in U.S. dollars, a significant portion of our expenses are incurred in Canadian dollars and Belgian francs. Appreciation in the value of these currencies relative to the U.S. dollar will adversely affect our operating results. For example, we suffered a $1,142,000 loss attributable to foreign currency translation during the six months ended March 31, 1999. Foreign currency translation gains and losses arising from normal business operations are credited to or charged against other income for the period incurred. To date, we have not established any currency hedging to minimize the effect of these gains or losses. As a result, fluctuations in the value of Canadian dollars and Belgian francs relative to U.S. dollars have caused and will likely continue to cause currency translation gains and losses.

If our products or the products upon which we depend malfunction because of ''Year 2000'' problems, we may be subject to warranty claims and product liability claims and we could experience a significant disruption in our business. We could be required to expend significant internal resources on Year 2000 remediation or the Year 2000 problems of our suppliers could cause a delay in their supplying goods and services to us. Furthermore, Year 2000 problems of our customers could cause them to delay payment for products that we have shipped to them.

We depend on proper functioning of computer systems of outside parties such as suppliers and customers. We also depend on our computer software programs and operating systems in operating our business. Any computer systems or components that have date-sensitive software may recognize a date using ''00'' as the year 1900 instead of the year 2000. We have completed our tests on the product components that could be affected by Year 2000 issues and, based on our tests, we believe that all of these components are Year 2000 compliant. However, we cannot assure you that we have identified all of the potential risks or that our internal systems or those of our suppliers will function adequately. In addition, we have no assurance that the outside manufacturers who supply components to us will be Year 2000 compliant with their internal systems. If they do not, the result could be a system failure or miscalculation causing disruptions of our operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in our similar normal business activities. Although we have received written warranties or other representations from substantially all of our sub-contractors that their products are Year 2000 compliant, we have no other Year 2000 related contractual commitments. Moreover, if we were to make a warranty claim against one of our sub-contractors because of a malfunction related to the Year 2000, there can be no assurance that the subcontractor would actually pay our warranty claim. In addition, our customers or potential customers may be affected by Year 2000 problems that may cause a delay in payments for products shipped.

We use a number of computer software programs and operating systems across our entire organization, including applications used in financial business systems and various administrative functions. At this time, we have completed the process of identifying and remediating information technology systems that were not Year 2000 compliant. As a result, we believe that none of our information technology systems currently contain source code that is unable to appropriately interpret Year 2000 data. Despite our Year 2000 compliance program, there is a possibility that one or more of our products is not Year 2000 compliant. In the event of a failure of one of our products at a customer site, our normal protocols for customer support would be followed.

If our systems experience ''Year 2000'' problems, we may be subject to warranty claims or claims for service interruptions and other damages related to the malfunctioning of our systems. Our product liability insurance may not be adequate to cover this possibility. If our products are adversely affected by Year 2000 problems in our customers' hardware or software with which our products interact, our customers or their end users may mistakenly believe that these problems were caused by our products. These customers and end users could react by demanding extensive technical support from us or by filing suit against us, either of which could increase our costs and divert our management resources.

Our principal shareholders and management own a majority of our common shares and as a group will be able to exercise significant influence over our affairs. This concentration of common shares may limit the ability of other shareholders to have any meaningful role in our affairs.

Following the completion of this offering, our directors, officers and their affiliates will beneficially own approximately 52.2% of our outstanding common shares. If these shareholders were to act together, they would be able to control all matters requiring approval by our shareholders, including the election of directors and the approval of mergers or other business combinations. The concentration of ownership could make it more difficult for a third party to acquire control of Creo if these shareholders were to oppose the change of control transaction. This could prevent our shareholders from realizing a premium over the market prices for their common shares or from bringing about a change in management.

There may be no active trading market in our common shares after this offering, which may make it difficult for you to resell your shares.

There has been no public trading market for our common shares prior to this offering, and we cannot be sure that an active trading market will develop upon completion of the offering or, if one does develop, that it will be sustained. If no public trading market for our common shares develops, or if this market is not active or sustained, it may be difficult for you to resell your shares at a price at or above the initial public offering price.

Technology related stock prices are especially volatile, this volatility may depress our stock prices, and you may not be able to resell your shares at a price at or above the initial public offering price.

Stock market prices for technology companies have been very volatile, and the market price of our common shares may be volatile. In particular, the market prices of the shares of many companies in the technology sector, a sector that includes Creo, have experienced wide fluctuations that have often been unrelated to their operating performance. As a result, you may not be able to resell your common shares at or above the initial public offering price. Although the market price of our common shares will in part be based on our operating and financial performance, it may also be based on conditions in the printing and prepress equipment industry and other factors beyond our control.

A total of 27,014,218, or 84.3%, of our outstanding shares are restricted from immediate resale but may be sold into our public trading market following the completion of this offering. This could cause the market price of our common shares to drop significantly, even if our business is doing well.

After this offering, we will have 32,027,854 common shares outstanding, not including common shares issuable upon exercise of options and warrants. This consists of:

- the 4,000,000 common shares we are selling in this offering, which may be resold in the public market immediately;
- the 1,000,000 common shares being sold by our current shareholders in this offering, and an additional 13,636 common shares held by our shareholders, all of which may be resold in the public market immediately; and
- the remaining 84.3%, or 27,014,218 common shares, of our total outstanding shares, which will become available for resale in the public market as shown in the chart below.

As restrictions on resale end, the market price could drop significantly if the holders of these restricted shares sell them or are perceived by the market as intending to sell them.

Number of shares / % of total outstanding	Date of availability for resale into public market
26,581,136 / 83.0%	181 days after the date of this prospectus due to (1) statutory restrictions on resale of common shares by Canadian residents, assuming we are successful in obtaining the discretionary relief for which we are applying, and (2) an agreement non-Canadian shareholders have with the underwriters. The underwriters may waive the restrictions in this agreement and allow these shareholders to sell their shares at any time.
432,902 / 1.4%	After the 181st day after the date of this prospectus due to the requirements of U.S. securities laws.

For a more detailed description, see ''Shares Eligible for Future Sale.''

Our board of directors could dilute your investment by issuing preferred shares or common shares. This could also deter an unsolicited proposal to acquire Creo.

Our board of directors may issue an unlimited number of common shares and an unlimited number of preferred shares. Furthermore, without further vote or action by the shareholders, our board of directors may determine the price, rights, preferences, privileges and restrictions, including voting and conversion rights, of the preferred shares, and to determine to whom they shall be issued. The rights of the holders of any preferred shares that may be issued in the future may be senior to the rights of holders of common shares, which could preclude holders of common shares from receiving dividends, proceeds of a liquidation or other benefits. The issuance of preferred shares with special voting or other rights also could make it more difficult for a third party to acquire control of Creo by, for example, discouraging an unsolicited acquisition proposal or a proxy contest.

Your rights as a shareholder could be modified by a vote of less than a majority of the outstanding common shares because actions can be taken even if only 20% of the outstanding common shares are present or represented by proxy.

Under our by-laws, a quorum for a meeting of shareholders is at least two shareholders physically present or represented by proxy who between them hold not less than 20% of the outstanding common shares. In addition, under the Canada Business Corporations Act, which governs us, and our by-laws, the majority required for approval of any action by our shareholders is expressed as a percentage of those who actually vote at a meeting. It is therefore possible for the rights of holders of our common shares to be modified by the affirmative vote of the holders of less than a majority of outstanding common shares.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business of Creo, the only contracts that are currently material to us and which we have entered into within the two-year period prior to the date of this prospectus are:

1. the joint venture agreement dated as of May 4, 1998 with Heidelberger Druckmaschinen AG referred to under ''Business—Our Joint Venture with Heidelberg''; and

2. the underwriting agreement referred to under ''Underwriting.''

A copy of each of these agreements may be inspected at our head office during normal business hours during the period of distribution of the common shares.

PRIOR SALES OF COMMON SHARES

During the 12 months prior to the date of this prospectus Creo sold the common shares indicated below for cash at the prices indicated. The 2,962,962 common shares sold on November 20, 1998 were sold pursuant to the exercise of warrants. See ''Interests of Management and Others in Certain Material Transactions''. The remaining common shares were sold pursuant to the exercise of options.

Date	Number of Common Shares Sold	Price per Common Share
April 30, 1999	39,584	C$3.75
April 22, 1999	3,200	C$7.25
	1,544	C$10.00
March 31, 1999	7,208	C$7.25
	600	C$10.00
February 22, 1999	424	C$10.00
February 17, 1999	3,440	C$7.25
February 11, 1999	58	C$17.50
December 29, 1998	1,000	C$7.25
November 20, 1998	2,962,962	U.S.$6.75
August 29, 1998	64	C$17.50

ELIGIBILITY FOR INVESTMENT

In the opinion of Getz Prince Wells and Osler, Hoskin & Harcourt, the common shares offered hereby will be, at the date of original issue, eligible investments, without resort to the so-called ''basket provisions,'' or their purchase is not prohibited or restricted, in each case subject to the general investment provisions, and in certain cases subject to prudent investor requirements and to additional requirements relating to investment or lending policies, standards, procedures or goals, under or by the following statutes and, where applicable, the relevant regulations:

Insurance Companies Act (Canada)
Pension Benefits Standards Act, 1985 (Canada)
Trust and Loan Companies Act (Canada)
Financial Institutions Act (British Columbia)
Pension Benefits Standards Act (British Columbia)
Loan and Trust Corporations Act (Ontario)
Pension Benefits Act (Ontario)
The Trustee Act (Manitoba)
The Insurance Act (Manitoba)

In the opinion of Thorsteinssons, Canadian tax counsel to Creo, and Osler, Hoskin & Harcourt, the common shares offered hereby, when listed on a prescribed stock exchange, will be qualified investments under the *Income Tax Act* (Canada) and the regulations thereunder (the ''Tax Act'') for trusts governed by a registered retirement savings plan, registered retirement income fund or deferred profit sharing plan (collectively, ''Deferred Income Plans''). In the opinion of such counsel, the common shares offered hereby will not at the date of issue be foreign property under the Tax Act for Deferred Income Plans and other persons subject to tax under Part XI of the Tax Act.

LEGAL MATTERS

Legal matters relating to Canadian law, the offering and the validity of the common shares offered in this offering are being passed upon for us by Getz Prince Wells, Vancouver, British Columbia. Legal matters relating to U.S. law and the offering are being passed upon for us by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California. Legal matters relating to Canadian law and the offering are being passed upon for the underwriters by Osler, Hoskin & Harcourt, Calgary, Alberta. Legal matters relating to U.S. law and the offering are being passed upon for the underwriters by Munger, Tolles & Olson LLP, Los Angeles, California. Legal matters related to United States and Canadian tax laws are being passed upon for us by our Canadian tax advisors Thorsteinssons, Tax Lawyers, of Vancouver, British Columbia and by our United States tax advisors, Wilson Sonsini Goodrich & Rosati, Professional Corporation. An investment partnership controlled by the partners of Getz Prince Wells holds 3,200 of our common shares.

EXPERTS

Our auditors are KPMG LLP, Chartered Accountants, of Suite 900, 777 Dunsmuir Street, Vancouver, British Columbia, Canada V7Y 1K3. Prior to June 1998, our auditors were Price Waterhouse, Chartered Accountants, 601 West Hastings Street, Vancouver, British Columbia, Canada V6B 5A5. Our consolidated financial statements as at and for the year ended September 30, 1998 have been included in this prospectus and in the registration statement in reliance upon the report of KPMG LLP, independent chartered accountants, and upon the authority of KPMG LLP as experts in accounting and auditing.

Our financial statements as at and for the years ended September 30, 1997 and 1996, prior to the restatement for the change in amortization policy and recording of the incentive shares as described in Note 1(l) of the financial statements were audited by Price Waterhouse, Chartered Accountants, as set forth in its report, and are included in this prospectus in reliance upon the authority of Price Waterhouse as experts in accounting and auditing. Price Waterhouse has not been associated with any of our financial statements subsequent to September 30, 1997. The change in independent chartered accountants was effective for fiscal 1998, was approved by Creo's board of directors and was not due to any disagreement between Creo and Price Waterhouse. During the period preceding the change in independent auditors, there were no disagreements with Price Waterhouse on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of Price Waterhouse would have caused Price Waterhouse to make reference to them in their report on the financial statements for the relevant periods. The audit reports of Price Waterhouse as of and for the years ended September 30, 1997 and 1996 did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in several of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt, or deemed receipt, of a prospectus and any amendment. In several of the provinces securities legislation also provides a purchaser with remedies for rescission or, in some provinces, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of his or her province. A purchaser should refer to any applicable provisions of the securities legislation of his or her province for the particulars of these rights or consult with a legal advisor.

CREO PRODUCTS INC.

INDEX TO FINANCIAL STATEMENTS

REVIEW ENGAGEMENT REPORT

To the Board of Directors
Creo Products Inc.

We have reviewed the consolidated balance sheet of Creo Products Inc. as at March 31, 1999 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the six months ended March 31, 1999 and 1998. Our review was made in accordance with generally accepted standards for review engagements and accordingly consisted primarily of inquiry, analytical procedures and discussion related to information supplied to us by the Company.

A review does not constitute an audit and consequently we do not express an audit opinion of these consolidated financial statements.

Based on our review nothing has come to our attention that causes us to believe that these consolidated financial statements are not, in all material respects, in accordance with generally accepted accounting principles.

/s/ KPMG LLP
Chartered Accountants

Vancouver, Canada

May 14, 1999

REPORT OF INDEPENDENT AUDITORS

To the Directors of
Creo Products Inc.

We have audited the consolidated balance sheet of Creo Products Inc. as at September 30, 1998 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 1998 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles in Canada.

The consolidated financial statements as at September 30, 1997 and for the year then ended, prior to restatement for the change in amortization policy and recording of incentive shares as described in note 1(l), were audited by other auditors who expressed an opinion without reservation on those statements in their report dated November 20, 1997. We have examined the adjustments that were applied to restate the 1997 consolidated financial statements and in our opinion, such adjustments are appropriate and have been properly applied.

Significant differences between Canadian and United States accounting principles are explained and quantified in note 14 to the consolidated financial statements.

/s/ KPMG LLP
Chartered Accountants

Vancouver, Canada

November 23, 1998

REPORT OF INDEPENDENT AUDITORS

To the Directors of
Creo Products Inc.

We have audited the consolidated balance sheet of Creo Products Inc. as at September 30, 1997 and the consolidated statements of operations and (deficit) and cash flows for the years ended September 30, 1997 and 1996 prior to the restatement for the change in amortization policy and recording of the incentive shares as described in note1(l). The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion the consolidated financial statements, prior to the restatement for the change in amortization policy and recording of the incentive shares, as described in note1(l), present fairly, in all material respects, the financial position of the Company as at September 30, 1997 and the results of its operations and its cash flows for the years ended 1997 and 1996 in accordance with generally accepted accounting principles in Canada.

/s/ Price Waterhouse
Chartered Accountants

Vancouver, Canada

November 20, 1997

Creo Products Inc.

Consolidated Balance Sheets
(In thousands of U.S. dollars)

	September 30, 1997 Restated (Note 1(l))	September 30, 1998	March 31, 1999 (unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$30,652	$ 16,224	$ 37,150
Accounts receivable	20,295	24,385	31,923
Inventories (note 3)	24,313	25,151	27,061
Prepaid expenses	1,764	2,212	3,421
Future income taxes (note 9)	692	—	120
Total current assets	77,716	67,972	99,675
Capital assets (note 4)	16,748	34,146	37,215
	$94,464	$102,118	$136,890
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities (note 5)	$16,661	$ 17,878	$ 17,481
Income taxes payable	1,046	825	2,072
Future income taxes (note 9)	—	87	—
Deferred revenue and deposits	14,646	13,677	20,787
Current portion of long-term debt (note 6)	4,680	943	296
Total current liabilities	37,033	33,410	40,636
Long-term debt (note 6)	6,956	6,660	6,512
Total liabilities	43,989	40,070	47,148
Shareholders' equity:			
Share capital (note 7)	58,371	58,854	78,917
Retained earnings (deficit)	(7,896)	3,194	10,825
Total shareholders' equity	50,475	62,048	89,742
	$94,464	$102,118	$136,890

Commitments and contingencies (note 12)
Subsequent event (note 15)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(Signed) RAPHAEL AMIT
Director

(Signed) DAVID A. BENNETT
Director

Creo Products Inc.

Consolidated Statements of Operations and Retained Earnings (Deficit)
(In thousands of U.S. dollars, except per share amounts)

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
	Restated (note 1(l))	Restated (note 1(l))		(unaudited)	
Revenue:					
Product revenue	$ 46,210	$ 91,669	$114,652	$ 53,220	$ 64,894
Service revenue	1,728	3,914	14,196	6,029	13,163
Total revenue	47,938	95,583	128,848	59,249	78,057
Cost of sales	31,766	53,634	71,217	33,189	40,688
Gross profit	16,172	41,949	57,631	26,060	37,369
Operating expenses:					
Research and development, net (note 8)	10,683	12,772	6,931	3,233	5,275
Sales and marketing	8,757	14,619	22,417	10,101	14,396
General and administration	4,092	6,271	8,937	3,879	3,983
Total operating expenses	23,532	33,662	38,285	17,213	23,654
Earnings (loss) from operations	(7,360)	8,287	19,346	8,847	13,715
Other income (expense)	5	48	(1,580)	(799)	(593)
Earnings (loss) before income taxes	(7,355)	8,335	17,766	8,048	13,122
Income tax expense (recovery) (note 9)	(112)	2,498	6,676	2,922	5,491
Net earnings (loss)	$ (7,243)	$ 5,837	$ 11,090	$ 5,126	$ 7,631
Earnings (loss) per common share (note 10):					
Basic	$ (0.34)	$ 0.26	$ 0.44	$ 0.21	$ 0.28
Fully diluted	$ (0.34)	$ 0.24	$ 0.41	$ 0.19	$ 0.25
Retained earnings (deficit), beginning of period as restated (note 1(l))	$ (6,490)	$(13,733)	$ (7,896)	$ (7,896)	$ 3,194
Net earnings (loss)	(7,243)	5,837	11,090	5,126	7,631
Retained earnings (deficit), end of period	$(13,733)	$ (7,896)	$ 3,194	$ (2,770)	$ 10,825

See accompanying notes to consolidated financial statements.

Creo Products Inc.

Consolidated Statements of Cash Flows
(In thousands of U.S. dollars)

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
	Restated (note 1(l))	Restated (note 1(l))		(unaudited)	
Cash provided by (used in) operations:					
Net earnings (loss)	$ (7,243)	$ 5,837	$ 11,090	$ 5,126	$ 7,631
Items not affecting cash:					
Amortization	2,687	3,673	4,996	2,169	2,598
Future income taxes	(195)	(380)	779	(99)	(207)
Incentive shares issued	521	102	78	78	—
Loss (gain) on disposal of capital assets	32	46	1	10	(36)
	(4,198)	9,278	16,944	7,284	9,986
Changes in non-cash working capital:					
Accounts receivable	(6,725)	(8,760)	(4,090)	(6,267)	(7,538)
Inventories	(9,419)	(5,805)	(838)	(113)	(1,910)
Prepaid expenses	(132)	(634)	(448)	(973)	(1,209)
Accounts payable and accrued liabilities	5,085	6,179	1,217	(903)	(397)
Income taxes payable	1,245	1,912	(221)	178	1,247
Deferred revenue and deposits	(2,216)	(2,864)	(969)	(344)	7,110
	(12,162)	(9,972)	(5,349)	(8,422)	(2,697)
	(16,360)	(694)	11,595	(1,138)	7,289
Cash provided by (used in) investing:					
Purchase of capital assets	(6,772)	(4,220)	(23,537)	(5,602)	(5,844)
Proceeds from sale of capital assets	46	57	1,142	952	213
	(6,726)	(4,163)	(22,395)	(4,650)	(5,631)
Cash provided by (used in) financing:					
Proceeds from share issues	19,918	24,254	405	25	20,063
Increase in long-term debt	4,901	7,400	—	—	—
Repayment of long-term debt	(898)	(7,082)	(4,033)	(2,326)	(795)
	23,921	24,572	(3,628)	(2,301)	19,268
Increase (decrease) in cash and cash equivalents	835	19,715	(14,428)	(8,089)	20,926
Cash and cash equivalents, beginning of period	10,102	10,937	30,652	30,652	16,224
Cash and cash equivalents, end of period	$ 10,937	$ 30,652	$ 16,224	$22,563	$37,150

See accompanying notes to consolidated financial statements.

Creo Products Inc.
Notes to Consolidated Financial Statements

Information as at March 31, 1999 and for the six months ended March 31, 1999 and March 31, 1998 is unaudited
(Amounts in thousands of U.S. dollars, except per share amounts)

Creo Products Inc. (the Company) was incorporated under the laws of Canada and its principal business activities include the development, manufacture and distribution of digital prepress equipment for the printing industry. The Company's principal customers are in the United States, Europe and Japan.

1. Significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which, in the case of the Company, materially conform with those established in the United States except as explained in note 14.

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, Creo Products N.V., Creo Inc., and Creo Ltd. (to March 12, 1998, the date of disposal), all of which have been wholly-owned. Creo Ltd. was disposed of at its carrying value to an unrelated party. All material intercompany balances and transactions have been eliminated.

Interests in joint ventures are recognized in the Company's consolidated financial statements using the proportionate consolidation method.

(b) Unaudited financial information

The financial information as at March 31, 1999 and for the six months ended March 31, 1999 and 1998 is unaudited; however, such financial information reflects all adjustments (consisting solely of normal recurring adjustments) required for a fair presentation of the financial information for the interim periods presented.

(c) Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the amounts reported in these financial statements and notes thereto. A significant area of estimate relates to the provision for potential retrofits on installed equipment. Actual results could differ from those estimated.

(d) Cash and cash equivalents

Cash equivalents include short-term deposits, which are all liquid securities with a term to maturity of three months or less when acquired.

(e) Inventories

Inventories are valued at the lower of cost and net realizable value. Costs of materials are determined on a weighted average basis. Work-in-progress and finished goods inventories include materials, direct labor and production overhead. Inventories are recorded net of any obsolescence provisions.

(f) Capital assets

Capital assets are stated at cost less applicable tax credits and non-repayable government grants.

Amortization of capital assets is recorded on a declining-balance basis at the following annual rates:

Building	4%
Equipment	20%
Computer software	100%
Furniture and fixtures	20%

Information as at March 31, 1999 and for the six months ended March 31, 1999 and March 31, 1998 is unaudited
(Amounts in thousands of U.S. dollars, except per share amounts)

1. Significant accounting policies (continued)

Computer and demo equipment are amortized on a straight-line basis over three years. Building improvements are amortized on a straight-line basis over five years. Prior to the change in policy described in note 4, the Company amortized computer and demo equipment using the declining balance method at 30% per year.

The Company monitors the recoverability of long-lived assets, based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset. To March 31, 1999, no impairment losses have been recorded.

(g) Research and development

Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet certain criteria under generally accepted accounting principles for deferral and amortization. The Company has determined that none of the development costs have met these criteria. Research and development costs are offset by funding from related development contracts. The Company has no obligation to repay the funds under these contracts. Development contracts involve the planning, development and installation of a product to meet a customer's needs. Funding from development contracts is recognized on the percentage of completion basis.

(h) Foreign currency translation

The consolidated financial statements of the Company are presented in United States (U.S.) dollars. To the extent that the Company generates funds or incurs costs in other currencies, these transactions are translated into U.S. dollars at rates which are representative of the underlying transaction. Accordingly, monetary assets and liabilities are translated at the rate prevailing at the balance sheet date. Non-monetary assets and liabilities are recorded at the rate prevailing at the date of the transaction. Revenues and expenses are translated at an average rate during the year. Exchange gains and losses are included in income. The exchange loss for the six months ended March 31, 1999 is $1,142 (six months ended. March 31, 1998 – $861; fiscal 1998 – $1,776; fiscal 1997 – $194; fiscal 1996 – $516).

(i) Revenue recognition

Revenue from sales of pre-press equipment is recognized when title passes to the customer or upon customer acceptance. Customer acceptance is used as the criterion for revenue recognition when the product sold does not have an established sales history to allow management to reasonably estimate returns and future provisions.

Revenue from workflow systems is recognized in accordance with AICPA Statement of Position 97-2, which allows revenue recognition once a sales arrangement exists, delivery has occurred, the revenue is determinable and collectibility is probable which is upon acceptance of the system by the customer.

Revenue from service contracts is recognized as the services are provided.

(j) Investment tax credits

Investment tax credits are accounted for using the cost reduction method whereby such credits are deducted from the expenditures or assets to which they relate.

Information as at March 31, 1999 and for the six months ended March 31, 1999 and March 31, 1998 is unaudited
(Amounts in thousands of U.S. dollars, except per share amounts)

1. Significant accounting policies (continued)

(k) Income taxes

The Company recognizes and measures, as assets and liabilities, income taxes currently payable or recoverable as well as future taxes which will arise from the realization of assets or settlement of liabilities at their carrying amounts, which differ from their tax bases. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which such temporary differences are expected to be recovered or settled.

(l) Comparative figures

The Company's deficit has been restated for retroactive changes to capital assets and share capital as outlined in notes 4 and 7(b), respectively.

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Deficit, beginning of period as previously reported	$(2,083)	$ (8,500)	$(2,317)	$(2,317)	$3,194
Adjustment of prior periods' earnings (note 4)	(183)	(488)	(732)	(732)	–
Adjustment of prior periods' earnings (note 7(b))	(4,224)	(4,745)	(4,847)	(4,847)	–
Deficit, beginning of period as restated	$(6,490)	$(13,733)	$(7,896)	$(7,896)	$3,194

Certain comparative figures have been reclassified to conform with the basis of presentation adopted in the current period.

(m) Advertising costs

The Company expenses advertising costs as incurred.

Information as at March 31, 1999 and for the six months ended March 31, 1999 and March 31, 1998 is unaudited
(Amounts in thousands of U.S. dollars, except per share amounts)

2. Joint Venture

Effective October 1, 1997, the Company entered into a 50% owned unincorporated joint venture with Heidelberger Druckmaschinen AG (Heidelberg) with respect to the design, manufacture and marketing of certain digital prepress equipment. The joint venture has no assets or liabilities. The consolidated financial statements include the following amounts representing the Company's proportionate share of the operations of the joint venture:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Consolidated Statements of Operations					
Revenues	$ –	$ –	$35,542	$16,344	$27,140
Cost of sales	–	–	17,896	8,403	12,804
Gross profit	–	–	17,646	7,941	14,336
Research and development	–	–	4,109	1,338	3,157
Net income	$ –	$ –	$13,537	$ 6,603	$11,179

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Consolidated Statements of Cash Flows					
Cash provided by operating activities	$ –	$ –	$13,537	$ 6,603	$11,179

3. Inventories

	September 30,		March 31,
	1997	1998	1999
			(unaudited)
Materials	$12,227	$11,722	$11,343
Work-in-progress	7,505	7,240	8,111
Finished goods	4,581	6,189	7,607
	$24,313	$25,151	$27,061

(Amounts in thousands of U.S. dollars, except per share amounts)

4. Capital Assets

	September 30, 1997	September 30, 1998	March 31, 1999 (unaudited)
Land	$ 3,403	$ 9,453	$ 9,453
Building	4,643	11,934	12,393
Building improvements	3,939	5,268	6,281
Equipment	2,889	4,357	4,915
Computer and demo equipment	7,795	10,994	13,101
Computer software	1,545	3,347	4,248
Furniture and fixtures	2,278	2,716	3,263
	26,492	48,069	53,654
Less: accumulated amortization	(9,744)	(13,923)	(16,439)
Net book value	$16,748	$ 34,146	$ 37,215

During 1998, the Company retroactively adopted the straight-line method of amortizing its computer and demo equipment, which were previously amortized on a declining balance basis, in order to better reflect the utilization of the underlying assets.

As a result of this change, retained earnings at October 1, 1995 have been reduced by $183, net of future income taxes of $117.

The effect of this change on the six months ended March 31, 1999 is an increase in accumulated amortization of $nil (six months ended March 31, 1998 – $250; fiscal 1998 – $532; fiscal 1997 – $400; fiscal 1996 – $500) and a reduction in net earnings for the six months ended March 31, 1999 of $nil (six months ended March 31, 1998 – $150; fiscal 1998 – $325; fiscal 1997 – $244; fiscal 1996 – $305), net of future income taxes of $nil (six months ended March 31, 1998 – $100; fiscal 1998 – $207; fiscal 1997 – $156; fiscal 1996 – $195).

5. Accounts payable and accrued liabilities

	September 30, 1997	September 30, 1998	March 31, 1999 (unaudited)
Trade payables	$ 9,033	$ 7,561	$ 7,739
Wages and benefits	3,420	6,118	6,216
Retrofit liabilities	3,286	3,278	2,730
Royalties	922	921	796
	$16,661	$ 17,878	$ 17,481

Information as at March 31, 1999 and for the six months ended March 31, 1999 and March 31, 1998 is unaudited
(Amounts in thousands of U.S. dollars, except per share amounts)

6. Long-term debt

	September 30, 1997	September 30, 1998	March 31, 1999 (unaudited)
Western Economic Diversification			
Unsecured, interest-free loan repayable in quarterly installments of $250	$ 749	$ –	$ –
Royal Bank of Canada			
First mortgage secured by properties in Delta and Burnaby, B.C. Interest at 8.05% per annum maturing February 4, 2002	7,252	6,956	6,808
Eastman Kodak Company			
Unsecured, interest-free loan repayable in installments on or before September 30, 2006	3,635	647	–
	11,636	7,603	6,808
Less: current portion	4,680	943	296
	$ 6,956	$6,660	$6,512

As at March 31, 1999, minimum principal repayments of long-term debt in the next five fiscal years are approximately as follows (unaudited):

1999	$ 148
2000	296
2001	296
2002	6,068
2003	–
	$6,808

The Company currently has $15 million available through a credit facility with Royal Bank of Canada at LIBOR plus 1% which has not been drawn upon at March 31, 1999.

The Company has entered into an interest rate swap agreement with Royal Bank of Canada which converted the first mortgage floating rate debt at LIBOR plus 1.5% into debt which has a fixed rate of 8.05% until February 4, 2002. As at March 31, 1999, the swap has an estimated fair market value of $195 (fiscal 1998 – $341; fiscal 1997 – $78) in favor of Royal Bank of Canada.

In the six months ended March 31, 1999, the Company incurred interest expense on long-term debt of $186 (six months ended March 31, 1998 – $270; fiscal 1998 – $525; fiscal 1997 – $408; fiscal 1996 – $416) which was charged to operations. In the six months ended March 31, 1999, the Company paid interest on long-term debt of $263 (six months ended March 31, 1998 – $274; fiscal 1998 – $605; fiscal 1997 – $338; fiscal 1996 – $416).

(Amounts in thousands of U.S. dollars, except per share amounts)

7. Share capital

A two-for-one share split of common shares took effect on May 4, 1999. All information relating to common shares reflects retroactively this share split.

(a) Authorized

The authorized capital of the Company consists of unlimited voting common shares without par value and an unlimited number of preferred shares issuable in series.

(b) Issued and outstanding

There have been no preferred shares issued. Common shares issued and outstanding are as follows:

	Number of Common Shares	Stated Values
Outstanding, September 30, 1995	18,550,364	$13,576
Issued as incentives to employees	98,166	521
Issued for cash	2,962,962	19,918
Outstanding, September 30, 1996	21,611,492	34,015
Issued as incentives to employees	15,500	102
Issued for cash	3,371,264	24,254
Outstanding, September 30, 1997	24,998,256	58,371
Issued as incentives to employees	6,208	78
Issued for cash from share options	47,698	158
Tax benefit of share issue costs	–	247
Outstanding, September 30, 1998	25,052,162	58,854
Issued for cash (unaudited)	2,962,962	20,000
Issued for cash from share options (unaudited)	12,730	63
Outstanding, March 31, 1999 (unaudited)	28,027,854	$78,917

Prior to the 1998 fiscal year, no value was assigned to shares issued as incentives to employees for no cash consideration. In 1998, the Company retroactively valued such shares at their estimated fair value on the date of issue. As a result, the prior years' financial statements of the Company have been restated to include as compensation expense, the value of incentive shares issued in each year. The impact of the restatement is to decrease retained earnings and increase share capital as at October 1, 1995 by $4,224.

Information as at March 31, 1999 and for the six months ended March 31, 1999 and March 31, 1998 is unaudited (Amounts in thousands of U.S. dollars, except per share amounts)

7. Share capital (continued)

(c) Share option plan

The Company has reserved 8,000,000 shares under the 1996 Stock Option Plan. The plan provides for the granting of share options at the fair market value of the Company's shares at the grant date. Options generally vest immediately and have a five year term. Share option activity for fiscal years 1996, 1997 and 1998 and for the six months ended March 31, 1999 is presented below:

	Number of Common Shares	Weighted Average Exercise Price
Outstanding, September 30, 1995	–	–
Granted	789,608	$4.80
Outstanding, September 30, 1996	789,608	4.80
Granted	1,677,518	6.25
Outstanding, September 30, 1997	2,467,126	5.78
Granted	832,744	11.29
Exercised	(47,698)	3.12
Outstanding, September 30, 1998	3,252,172	7.23
Granted (unaudited)	1,355,790	9.10
Exercised (unaudited)	(12,730)	4.98
Outstanding, March 31, 1999 (unaudited)	4,595,232	7.79

	Number of Common Shares
Exercisable at:	
September 30, 1996	676,022
September 30, 1997	2,044,140
September 30, 1998	2,957,406
March 31, 1999 (unaudited)	4,393,644

The options outstanding at March 31, 1999 expire between May 31, 1999 and January 4, 2004.

The exercise price of the share options granted during the six months ended March 31, 1999 equals the estimated fair value of the Company's common shares at the date of grant. This exercise price was determined by reference to an independent valuation performed near the date of the option grant which considered all available and relevant information about the Company. In determining the exercise price, the Company also considered the general business developments in the period since the valuation was completed.

Information as at March 31, 1999 and for the six months ended March 31, 1999 and March 31, 1998 is unaudited (Amounts in thousands of U.S. dollars, except per share amounts)

7. Share capital (continued)

The following table summarizes information about the Company's share options outstanding at March 31, 1999 (unaudited):

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at March 31, 1999	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at March 31, 1999	Weighted Average Exercise Price
$ 2.48	89,584	1.3	$ 2.48	89,584	$ 2.48
$ 2.49 – $ 5.00	863,708	1.8	4.80	863,708	4.80
$ 5.01 – $ 7.50	1,495,238	3.0	6.63	1,323,238	6.63
$ 7.51 – $10.00	1,363,438	4.8	9.11	1,341,418	9.11
$10.01 – $12.50	783,264	3.8	11.60	775,696	11.60
	4,595,232	3.4	7.79	4,393,644	7.82

(d) Warrants

The Company issued warrants to purchase 24,598 shares on or before June 2, 2002 as consideration for raising capital in 1997. The exercise price of each warrant is $9.38.

8. Research and development

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Research and development expenses	$14,698	$14,877	$19,123	$ 8,962	$13,256
Research and development funding					
Development contract revenue	(2,904)	(1,405)	(8,464)	(4,017)	(5,928)
Investment tax credits	(1,111)	(700)	(3,728)	(1,712)	(2,053)
Research and development, net	$10,683	$12,772	$ 6,931	$ 3,233	$ 5,275

9. Income taxes

Earnings (loss) before income taxes are as follows:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Canada	$(4,958)	$7,010	$12,891	$5,934	$10,966
Foreign	(2,397)	1,325	4,875	2,114	2,156
Total	$(7,355)	$8,335	$17,766	$8,048	$13,122

Information as at March 31, 1999 and for the six months ended March 31, 1999 and March 31, 1998 is unaudited
(Amounts in thousands of U.S. dollars, except per share amounts)

9. Income taxes (continued)

The provision for (recovery of) income taxes consists of the following:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Current:					
Canada	$ 69	$1,375	$5,369	$2,844	$4,913
Foreign	14	1,503	528	177	785
Total current	$ 83	$2,878	$5,897	$3,021	$5,698
Future:					
Canada	$(179)	$ (21)	$1,071	$ (86)	$ (219)
Foreign	(16)	(359)	(292)	(13)	12
Total future	$(195)	$ (380)	$ 779	$ (99)	$ (207)
Total income tax provision	$(112)	$2,498	$6,676	$2,922	$5,491

Income tax rate:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Combined Canadian federal/provincial tax rate	45.6%	45.6%	45.6%	45.6%	45.6%
Increased (reduced) by:					
Manufacturing and processing credits	–	(1.3)	(5.4)	(5.9)	(5.8)
Foreign exchange translation not deducted for tax	–	–	6.5	4.6	1.1
Foreign losses (utilized) not recognized	(17.2)	7.3	(6.5)	(4.0)	–
Future income tax assets not recognized	(26.6)	(21.6)	–	–	–
Foreign tax rate reduction	–	(2.7)	(1.8)	(2.5)	(1.0)
Other	(3.3)	2.7	(0.8)	(1.5)	1.9
Effective rate	(1.5)%	30.0%	37.6%	36.3%	41.8%

(Amounts in thousands of U.S. dollars, except per share amounts)

9. Income taxes (continued)

Temporary differences that give rise to the net future income tax benefit are as follows:

	September 30,			March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Current future income tax benefit:					
Investment tax credit revenue	$ –	$ (329)	$(998)	$ (575)	$(1,266)
Revenue recognition	–	134	31	78	733
Retrofit liability and other	–	899	933	1,521	933
Total current future income tax	$ –	$ 704	$ (34)	$1,024	$ 400

	September 30,			March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Long-term future income tax benefit:					
Capital assets	$312	$ (12)	$(412)	$ (233)	$ (583)
Financing costs	–	–	359	–	303
Operating losses	–	1,500	–	–	–
Valuation allowance					
Canada	–	–	–	–	–
Foreign	–	(1,500)	–	–	–
Total long-term future income tax	$312	$ (12)	$ (53)	$ (233)	$ (280)
Net future income tax benefit	$312	$ 692	$ (87)	$ 791	$ 120

In the six months ended March 31, 1999, the Company paid income taxes of $1,980 (six months ended March 31, 1998 – $975; fiscal 1998 – $1,683; fiscal 1997 – $270; fiscal 1996 – $115).

As at March 31, 1999, the Company has unused investment tax credits totaling approximately $5,100 available to reduce future Canadian federal income taxes. These tax credits expire in varying amounts to 2009.

10. Earnings per common share

Basic earnings per common share is calculated by dividing the earnings for the period by the weighted average number of common shares outstanding during the period: six months ended March 31, 1999 – 27,275,538 (six months ended March 31, 1998 – 24,998,256; fiscal 1998 – 25,024,788; fiscal 1997 – 22,769,212; fiscal 1996 – 21,209,172).

Fully diluted earnings per share is based on the assumptions that all outstanding options and warrants in note 7 were exercised at the beginning of the period and that the funds derived therefrom had been invested to produce an annual return of 3%, after income taxes, for the six months ended March 31, 1999 (six months ended March 31, 1998 – 4%; fiscal 1999 – 3%; fiscal 1998 – 4%; fiscal 1997 – 3%). The amounts of income imputed, after income taxes, were $619 for the six months ended March 31, 1999 (six months ended March 31, 1998 – $668; fiscal 1998 – $1,329; fiscal 1997 – $1,559). Fully diluted net loss per share for the 1996 fiscal year is not shown as it would be anti-dilutive.

(Amounts in thousands of U.S. dollars, except per share amounts)

11. Financial instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to their short-term maturities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of its long-term debt approximates fair value. The fair value of the interest rate swap is disclosed in Note 6.

Significant amounts of the Company's expenditures are denominated in Canadian dollars. Fluctuations in the exchange rate between Canadian and U.S. dollars could have a material effect on the Company's business, financial condition and results of operations. The Company has not entered into foreign currency contracts or other instruments to mitigate this risk.

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily accounts receivable (note 13). The Company performs ongoing credit evaluations of its customers' financial conditions and requires letters of credit or other guarantees whenever deemed necessary.

12. Commitments and contingencies

The Company is party to certain operating leases under which the future minimum lease payments as at March 31, 1999 are approximately as follows (unaudited):

1999	$ 752
2000	1,098
2001	640
2002	462
2003	263
Thereafter	270
	$3,485

Total rent expense for the six months ended March 31, 1999 was $736 (six months ended March 31, 1998 – $408; fiscal 1998 – $843; fiscal 1997 – $803; fiscal 1996 – $425).

The Company has letters of guarantee with the Royal Bank of Canada totaling $750 expiring in March 2000.

Year 2000 issues arise because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. The effects of year 2000 issues may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of year 2000 issues affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

(Amounts in thousands of U.S. dollars, except per share amounts)

13. Segmented financial information

The Company operates in a single reportable operating segment relating to digital prepress equipment. The Company generated revenue from the development and sale of digital prepress equipment to customers in the following geographic segments:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Canada	$ 1,810	$ 3,134	$ 3,193	$ 591	$ 1,820
U.S.	32,715	62,441	71,927	35,942	50,544
Europe	4,501	15,718	41,655	15,547	22,140
Japan	7,020	9,936	5,316	2,786	1,100
Other	1,892	4,354	6,757	4,383	2,453
	$ 47,938	$ 95,583	$128,848	$59,249	$78,057

There were no customers representing 10% or more of total revenue in the six months ended March 31, 1999, the six months ended March 31, 1998, or the 1998 fiscal year. There was one customer in 1997 representing approximately 10% of total revenue. In the 1996 fiscal year, there were four customers representing approximately 51% (18%, 12%, 11% and 10% individually) of total revenue.

The Company has capital assets located in:

	September 30,		March 31,
	1997	1998	1999
			(unaudited)
Canada	$14,883	$31,914	$34,820
Other	1,865	2,232	2,395
	$16,748	$34,146	$37,215

14. Differences between Canadian and United States accounting principles and practices

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP) which differ in certain respects from those principles and practices that the Company would have followed had its consolidated financial statement been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP).

(a) Change in accounting policy

Under U.S. GAAP, the change in accounting policy described in note 4, relating to amortization of capital assets, would be accounted for prospectively from October 1, 1997 and the cumulative effect of the change would be disclosed as a separate item in the determination of net earnings. The Company's accounting policy of using the straight line method of amortization over 3 years for computer and demo equipment instead of the declining balance at 30% per year has resulted in lower net income because the straight line method results in three equal annual amortization charges of 33⅓% each, while the declining balance method result in an amortization charge of 30% of the net book value of the asset in each year.

As a result, in the first year of an asset acquisition, amortization from an acquired asset will be higher under the straight line method of amortization over 3 years as compared to the declining balance at 30% per year.

Information as at March 31, 1999 and for the six months ended March 31, 1999 and March 31, 1998 is unaudited (Amounts in thousands of U.S. dollars, except per share amounts)

14. Differences between Canadian and United States accounting principles and practices (continued)

Since the change disclosed in note 7(b), relating to the issuance of incentive shares, results in consistency between Canadian GAAP and U.S. GAAP, no adjustment is required for purposes of this reconciliation. There is no authoritative literature in Canada that specifies GAAP for the accounting for incentive shares issued to employees. In practice, this has resulted in the development of two alternatives. They are the assignment of value to these shares or of no value to these shares. The Company concluded in 1998 that a change to the policy described in note 7(b) would be preferable.

The effect of these differences would be:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Net earnings (loss) under Canadian GAAP	$ (7,243)	$ 5,837	$11,090	$ 5,126	$ 7,631
Reverse retroactive impact of change in accounting policy	305	244	–	–	–
Earnings (loss) before cumulative effect of change in accounting policy under U.S. GAAP	(6,938)	6,081	11,090	5,126	7,631
Cumulative effect of change in accounting policy	–	–	(732)	(732)	–
Net earnings (loss) under U.S. GAAP	(6,938)	6,081	10,358	4,394	7,631
Retained earnings (deficit), beginning of year under U.S. GAAP	(6,307)	(13,245)	(7,164)	(7,164)	3,194
Retained earnings (deficit), end of year under U.S. GAAP	$(13,245)	$(7,164)	$ 3,194	$(2,770)	$10,825
Earnings (loss) per share					
Basic earnings per share	$ (0.33)	$ 0.27	$ 0.41	$ 0.18	$ 0.28
Diluted earnings per share	$ (0.33)	$ 0.25	$ 0.38	$ 0.16	$ 0.27

The cumulative effect of the change in accounting policy reduced basic earnings per share for the six months ended March 31, 1998 by $0.03 (fiscal 1998—$0.03) and diluted earnings per share for the six months ended March 31, 1998 by $0.03 (fiscal 1998—$0.03).

Comprehensive earnings (loss) is the same as net earnings (loss) under U.S. GAAP for all periods presented.

A reconciliation of retained earnings under Canadian GAAP to retained earnings under U.S. GAAP is as follows:

	September 30		March 31,
	1997	1998	1999
			(unaudited)
Retained earnings under Canadian GAAP	7,896	3,194	10,825
Impact of change in amortization policy	(732)	—	—
Retained earnings under U.S. GAAP	7,164	3,194	10,825

(Amounts in thousands of U.S. dollars, except per share amounts)

14. Differences between Canadian and United States accounting principles and practices (continued)

(b) Earnings per share

During 1997, the Company adopted Statement of Financial Accounting Standard No. 128 (FAS 128), Earnings Per Share for U.S. GAAP purposes. Diluted earnings per share under U.S. GAAP is based on the weighted average number of Common Shares outstanding which considers the dilutive effect of share options and warrants by applying the Treasury Stock method.

Under Canadian GAAP, net income is adjusted for the impact of fully diluted earnings per share by adding to net income the impact of imputed income that is assumed to result from earnings on the proceeds from the exercise of outstanding options and warrants. Under U.S. GAAP, no such adjustment is made to net income in calculating diluted earnings per share. In addition, under U.S. GAAP, for purposes of determining the weighted average number of shares outstanding in this calculation the proceeds deemed to be received on exercise of outstanding dilutive securities are considered to be applied towards the repurchase of issued common shares.

The following weighted average number of shares was used for the computation of diluted earnings per share.

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Weighted average shares used in computation of basic earnings per share . . .	21,209,172	22,769,212	25,024,788	24,998,256	27,275,538
Weighted average shares from assumed conversion of dilutive options	–	1,422,132	2,011,202	2,425,437	791,297
Weighted average shares used in computation of diluted earnings per share	21,209,172	24,191,344	27,035,990	27,423,693	28,066,835

(c) Statement of cash flows

Under U.S. GAAP, no subtotal would be provided in the operating section of the statement of cash flows.

(d) Impairment of long-lived assets

Under Canadian GAAP, an impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset. Under U.S. GAAP, an impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the fair value of the asset. To March 31, 1999, no impairment losses have been recorded under Canadian and U.S. GAAP and, accordingly, no material differences due to these policies have arisen.

(Amounts in thousands of U.S. dollars, except per share amounts)

14. Differences between Canadian and United States accounting principles and practices (continued)

(e) Joint venture

The accounts of the Company's joint venture investment were proportionately consolidated (see note 2). Under U.S. GAAP, proportionate consolidation is not permitted. However, under rules promulgated by the United States Securities and Exchange Commission (SEC), a foreign registrant may, subject to the provision of additional information which is set out in Note 2, continue to apply proportionate consolidation for purposes of registration and other filings, notwithstanding the departure from U.S. GAAP. Accordingly, the financial statements have not been adjusted to restate the accounting under U.S. GAAP.

Under U.S. GAAP, unincorporated joint ventures would be accounted for under the equity method of accounting. The Company believes that it can rely on the relief granted by the SEC from the application of U.S. GAAP for joint ventures. The Company believes that the joint venture with Heidelberg is an operating joint venture since it has a substantive existence through a contractual arrangement which involves joint decision making, the allocation of calculated profits and losses for the joint venture in accordance with the joint ownership percentages, and a lack of limitation on either party's exposure to the risks and rewards of ownership, and it operates through separate sales, management, customer and product systems.

(f) Stock based compensation

The Company has elected to continue to apply the guidance set out in Accounting Principles Board Opinion No. 25, ''Accounting for Stock Issued to Employees'' (APB 25) and related interpretations in accounting for its employee share options. Under APB 25, because the exercise price of the Company's employee share option equals the estimated fair value of the underlying share on the date of grant, no compensation cost is recognized.

Pro forma information regarding net earnings (loss) and earnings (loss) per share is required by Statement of Financial Accounting Standards No. 123 (FAS 123), Accounting for Stock-Based Compensation, for U.S. GAAP. Had compensation cost for the Company's share option plan been determined based on the fair value at the grant date for awards under those plans consistent with the measurement provisions of FAS 123, the Company's net earnings (loss) and earnings (loss) per share under U.S. GAAP would have been adjusted as follows:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Net earnings (loss) – pro forma	$(8,901)	$ 1,246	$ 4,906	$ (805)	$ 1,206
Basic earnings (loss) per share – pro forma	$ (0.42)	$ 0.05	$ 0.20	$ (0.03)	$ 0.04
Diluted earnings (loss) per share – pro forma	$ (0.42)	$ 0.05	$ 0.18	$ (0.03)	$ 0.04

Pro forma amounts reflect options granted after the 1995 fiscal year.

(Amounts in thousands of U.S. dollars, except per share amounts)

14. Differences between Canadian and United States accounting principles and practices (continued)

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option valuation model with the following assumptions:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Expected dividend yield	0%	0%	0%	0%	0%
Expected stock price volatility	45	51	50	50	49
Risk-free interest rate	7.8%	5.0%	5.5%	5.5%	6.0%
Expected life of options	5 years	5 years	5 years	5 years	5 years

The fair value of the options granted is $6,425 for the six months ended March 31, 1999 (six months ended March 31, 1998 – $5,199; fiscal 1998 – $5,452; fiscal 1997 – $4,835; fiscal 1996 – $1,963;).

For purposes of pro-forma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting period on a straight-line basis.

(g) Supplementary information: allowance for doubtful accounts

Accounts receivable are disclosed net of allowance for doubtful accounts as follows:

	Years Ended September 30,			Six Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Charged to expenses	$ 1	$426	$ 51	$ (45)	$ 25
Balance, end of period	$50	$391	$180	$365	$362

15. Subsequent event (unaudited)

The Company has filed a preliminary prospectus and a Registration Statement on Form F-1 with securities regulatory authorities in the provinces of British Columbia, Manitoba and Ontario, Canada and the United States, respectively, relating to an issue and sale of the Company's common shares.

CERTIFICATE OF CREO PRODUCTS INC.

Dated: July 28, 1999

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part VII of *The Securities Act* (Manitoba) and Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

(Signed) AMOS MICHELSON Chief Executive Officer	(Signed) THOMAS A. KORDYBACK Vice President, Finance, Chief Financial Officer and Secretary

On behalf of the Board of Directors:

(Signed) RAPHAEL AMIT Director	(Signed) DANIEL GELBART Director

CERTIFICATE OF THE UNDERWRITERS

Dated: July 28, 1999

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part VII of *The Securities Act* (Manitoba) and Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

SALOMON SMITH BARNEY CANADA INC.	MERRILL LYNCH CANADA INC.
By: (Signed) ROBERT J. GEMMELL	By: (Signed) KENNETH J.C. MACKINNON

RBC DOMINION SECURITIES INC.

By: (Signed) J. LEVERSAGE

The following includes the names of every person or company having an interest, either directly or indirectly, to the extent of not less than 5% in the capital of:

SALOMON SMITH BARNEY CANADA INC.: an indirect wholly-owned subsidiary of Citigroup Inc.

MERRILL LYNCH CANADA INC.: an indirect wholly-owned subsidiary of Merrill Lynch & Co., Inc.

RBC DOMINION SECURITIES INC.: an indirect wholly-owned subsidiary of a Canadian chartered bank.

CERTIFICATE OF THE UNDERWRITERS

Dated: July 20, 1999

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the Securities Act (British Columbia), Part [illegible] of The Securities Act (Manitoba) and Part [illegible] of the Securities Act (Ontario) and the respective regulations thereunder.

Salomon Smith Barney Canada Inc.	Merrill Lynch Canada Inc.
By: (Signed) [illegible]	By: (Signed) Kenneth J.L. MacKinnon

RBC Dominion Securities Inc.

By: (Signed) [illegible]

The following includes the names of every person or company having an interest, either directly or indirectly, to the extent of not less than 5% in the capital of:

Salomon Smith Barney Canada Inc.: an indirect wholly-owned subsidiary of Citigroup Inc.

Merrill Lynch Canada Inc.: an indirect wholly owned subsidiary of Merrill Lynch & Co., Inc.

RBC Dominion Securities Inc.: an indirect wholly owned subsidiary of a Canadian chartered bank.

The Creo team is a diverse and highly skilled group, drawn together by a common passion for technological innovation and a shared focus on customer success.

We believe Creo has the most knowledgeable and experienced CTP customer support organization in the industry. Our people are committed to building Creo's reputation as an industry leader that puts customers first.

CREO®